THE FEDERAL GOVERNMENT ON AUTOPILOT: MANDATORY SPENDING AND THE ENTITLEMENT CRISIS

HEARING

BEFORE THE

EXECUTIVE OVERREACH TASK FORCE

OF THE

COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES

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THE FEDERAL GOVERNMENT ON AUTOPILOT: MANDATORY SPENDING AND THE ENTITLEMENT CRISIS

WEDNESDAY, JULY 6, 2016

HOUSE OF REPRESENTATIVES

EXECUTIVE OVERREACH TASK FORCE

COMMITTEE ON THE JUDICIARY

Washington, DC.

The Task Force met, pursuant to call, at 1 p.m., in Room 210, Cannon House Office Building, the Honorable Steve King (Chairman of the Task Force) presiding.

Present: Representatives King, Goodlatte, Gohmert, Labrador, DeSantis, Buck, Bishop, Cohen, Conyers, and Lofgren.

Staff Present: (Majority) Paul Taylor, Chief Counsel; Tricia White, Clerk; Zachary Somers, Parliamentarian & General Counsel, Committee on the Judiciary; (Minority) James J. Park, Minority Counsel; Veronica Eligan, Professional Staff Member.

Mr. KING. The Executive Overreach Task Force will come to order, and without objection, the Chair is authorized to declare recesses of the Task Force at any time. And I will recognize myself for an opening statement.

Today's hearing of the Task Force on Executive Overreach will focus on mandatory spending at the Federal level, and the resulting entitlement crisis. Federal spending is characterized, excuse me, categorized as either discretionary or mandatory spending.

Under discretionary spending, the President and Congress decide each year which programs to fund, and how much. To do so, they are supposed to enact 12 appropriations bills that fund the defense budget, and a wide range of domestic programs. Some programs are continued, some programs are created, and some programs, less often, are ended.

But under mandatory spending, the President and Congress create programs, mostly so-called entitlement programs, that continue automatically from year to year. That is unless Congress enacts laws in later years to change them.

These entitlements have increasingly dominated Federal spending, and they grow automatically forever, by annually providing more generous benefits to more eligible people. As Urban Institute scholar Eugene Steuerle has written, "to top it off," and this is a quote, "to top it off, these automatic growth rates, particularly in

retirement and health programs, were sometimes set at levels above the growth rate, in people's private incomes and the economy itself. Eventually, the prospect of new and growing future deficits arises even in the absence of any new congressional action."

This trend is accelerating as ever more years of taxpayer support are required as people live longer, and as there has come to be fewer taxpayers relative to the beneficiaries, as birthrates have fallen.

As Mr. Steuerle has summarized, "Where policymakers of the past could achieve budget balance simply by enacting few or no increases in discretionary spending for a while, or in a few cases, mainly after war, cutting discretionary spending, such a strategy would prove futile in today's fiscal context.

"Now the reverse is true. Built-in growth in spending will exceed the growth in revenue forever, or until the economy collapses. Eventually, with revenues completely allotted to finance fast-growing entitlements, Congress will have to finance any dollar of discretionary spending by borrowing, often from abroad."

Recent experience in advanced economies indicates that countries with debt above 80 percent of gross domestic product and persistent deficits are vulnerable to doubts by lenders, which lead to higher interest rates, which in turn make our fiscal situation much worse by requiring us to devote an even larger share of Federal revenues to paying for the interest on our debt.

That is an unsustainable situation. Mandatory entitlements continue to grow larger with the volume of current beneficiaries, making the debt burden larger and larger as our future generations grow smaller and smaller.

As researchers at the Urban Institute have concluded, "If current trends for younger generations are not reversed, within a few decades they may become more dependent than older generations of Americans today, especially in retirement, upon safety net programs less capable of providing basic support."

I look forward to hearing from all our witnesses today, and discussing ways in which we might step away from the abyss that has been growing steadily at our feet for decades. That abyss cannot grow forever without opening under the feet of future generations, and swallowing their futures and opportunities.

I would conclude my statement, and now recognize the Ranking Member from Tennessee for his opening statement, Mr. Cohen.

Mr. COHEN. Thank you, Mr. King, and I welcome the witnesses. It has been clear, since the first hearing of this Task Force, that my colleagues in the majority have attempted to turn into constitutional issues what are essentially policy disputes between the parties.

Indeed, at the first hearing, one of the majority witnesses suggested the Constitution may require Congress to cut funding for Social Security, Medicare and Medicaid. So it is not surprising that today's hearing about mandatory spending and the so-called "entitlement crisis," is really about making the argument to cut Social Security, Medicare and Medicaid, three of the most important and most politically popular entitlement programs, which conservatives are denied the votes or political support to undermine outright.

These three programs constitute a majority of all Federal spending, and by far the largest portion of mandatory spending. And so when we talk about mandatory spending, we are talking about these programs. And if there is a problem with the finances of these programs, I would submit you can raise the cap on Social Security and Medicaid to get sufficient funding, not to take away from the people who need these programs, perfectly within Congress' constitutional powers to constitute power of the purse to pass mandatory spending measures that avoid the annual appropriations process.

Doing so as a policy choice, one which Congress may be free to revisit on its merits, but not one that is unconstitutional. And the prior Congresses that enacted Social Security, Medicare and Medicaid made the right choice in making funding mandatory for those programs.

In the 81 years since President Roosevelt, Franklin Roosevelt, signed the Social Security Act into law, Social Security has remained one of the Nation's most successful and effective programs, one that provides a basis for retirement for our seniors, and social insurance for workers who have become disabled, or for their survivors in the event of their deaths.

According to the Center for Budget and Policy Priorities, 60 million Americans, or more than 1 in 6, received Social Security benefits in June of 2015. And without Social Security, almost half of Americans age 65 and older would be living well below the poverty line. Thanks to Social Security, less than 10 percent currently do.

Social Security is a particularly important source of income for members of minority groups, who are disproportionally likely to have low incomes and less ability to save for retirement. For instance, 46 percent of African-Americans age 65 and older relied on Social Security for 90 percent or more of their income, compared to 35 percent of Whites.

This disparate impact shows that regardless of the intent—and I know there is no intent on the part of the people that proposed this—it is de facto racial in nature, and discriminatory.

According to the Center for Medicare and Medicaid Services, Medicare provided health insurance and other benefits to 54 million Americans in 2014, and the average monthly enrollment for Medicaid in the Children's Health Insurance Program was 64 million in 2014, including 29 and a half million children.

Other programs that mandatory spending provisions include SNAP, the Nation's foremost anti-hunger program, which in 2015 helped 43 million low-income Americans afford food, including the 15 million children who are food-insecure and living below the poverty line. That is one in five children in the richest country on earth.

These programs represent our Nation's most basic commitment to supporting our elders, and of protecting our most vulnerable fellow citizens. And mandatory spending programs are vital to ensuring the poor, the sick and the elderly are not sentenced to a life of desperation and constant insecurity over essential life necessities like food and healthcare.

While we are spending limited time and resources on a budgetary policy dispute, calling it a constitutional issue, we should

really be addressing programs, pressing programs, that have been ignored, like reinvigorating the Voting Rights Act, criminal justice reform, and stopping the scourge of gun violence. These are issues that need addressing that are important.

And I would submit again, this past week we lost a great hero in Eli Wiesel, a great man on the face of the earth, and he talked about the fact that if you are dealing with an issue—and he was talking about, I guess, physical violence, but he said, "If you do not take a position, if you do not take a stand, you stand with the oppressor, and not with the victim. And neutrality does not work, because neutrality benefits only the oppressor and not the victim."

In these situations where you are taking funding from people who are poor, and otherwise would not have the money and the means to have food or healthcare, and particularly to African-Americans who grew up, many of them, in either a pre-Brown, a Jim Crow world, or just the beginning of the change, which was not enough to give them the opportunities for access to moneys or to jobs that could give them good retirements, you are talking about discriminating against the vulnerable, and you are taking the role of helping the oppressor.

That is something we should never do, and that is why I am pleased to be a Member of Congress and fight for those people that need to be represented, and suggest that we, instead of looking at these issues, we should be looking at raising the cap, and having those that can afford pay a little more to take care of those who cannot.

I thank our witnesses for their testimony, and I look forward to the rest of the hearing. I yield back the balance of my time.

Mr. KING. I thank the Ranking Member from Tennessee for his opening statement, and now recognize the Chairman of the full Committee, Mr. Goodlatte from Virginia, for his opening statement.

Mr. GOODLATTE. Thank you, Chairman King, for convening this sixth hearing of the Task Force on Executive Overreach, this one focusing on the mandatory Federal spending that risks stripping current and future generations of so many of the opportunities previous generations enjoyed.

Federal spending as a percent of gross domestic product, broken down by category, shows that entitlement spending has grown the fastest, and now consumes the largest percentage of our GDP. In the past, U.S. public debt as a percentage of gross domestic product generally rose as a result of having to conduct wars of a limited duration. When those wars were over, the debt was gradually paid off.

More recently, however, public debt has risen as a result not of wars, but of having to pay for entitlement programs that are of indefinite duration, and difficult to reduce over time. Total discretionary spending as a percentage of our economy has gone down. Defense spending as a percentage of our economy has gone down. Other non-defense discretionary spending has also gone down.

What is increasingly going up is total mandatory spending as a percentage of our economy, such that mandatory spending now dominates the Federal budget. Making matters even worse, the deficit spending it causes will lead to ballooning interest payments

in the years to come, as interest rates reach normal, that is, higher levels.

By 2026, it is predicted that so much of the Federal budget will be devoted to mandatory entitlement spending that just a sliver of incoming annual revenue will be left to pay for everything the Federal Government does other than mandatory entitlement spending, such as paying for national defense, our Federal courts, Federal policing, natural disasters, basic research and everything else.

Federal tax rates are already steeply progressive, and the pool of people in the labor market from whom taxes can be drawn is shrinking as fewer and fewer people report even looking for work. At the same time, older generations receive more in public benefits than they pay in taxes. And so future generations will have to pay much more in taxes to cover both the public benefits costs to themselves, and the costs incurred by all who came before them.

As fewer younger people must pay more to support the benefits for larger older generations, younger people are less able to afford children of their own, and so are having fewer children. And the situation worsens going forward in a perverse ripple effect.

Indeed, a 2013 cross-national study looked at measures such as public debt per child, the ratio of childhood to elderly poverty, and the skew toward older generations in social spending. The study found that the United States ranked worst, dead last, among 29 advanced countries in the degree to which it imposes disproportionately large burdens on future generations.

As University of Virginia philosophy professor Loren Lomasky has written, theorists have devoted considerable attention to injustices committed across lines of race and gender. Far less attended are concerns of intergenerational fairness. That omission is serious. Measures that have done very well by baby boomers are much less generous to their children, and worse still for their grandchildren.

The single greatest unsolved problem of justice in the developed world today is transgenerational plunder. That is grossly unfair to our young Americans, and to the wellbeing of our pluralistic society as a whole.

I believe the only way to ensure Congress acts with fiscal restraint over the long term is to pass a balanced budget amendment to the Constitution. Back in 1995, when a balanced budget amendment came within one vote of passing, the gross Federal debt stood at $4.9 trillion. Today, it stands at over $19 trillion. This experience has proven time and again that Congress cannot, for any significant length of time, rein in excessive spending, but two-thirds of each house of Congress has yet to come to really appreciate that history and this looming fiscal crisis. I look forward to hearing from all of our witnesses today, and examining solutions for bringing our fiscal house in order. Thank you, Mr. Chairman. I yield back.

Mr. KING. I thank the Chairman for his opening statement, and I now recognize the Ranking Member of the full Committee, the venerable gentleman from Detroit, Mr. Conyers.

Mr. CONYERS. Thank you very much, Chairman King. And I too join in particularly welcoming Scott Lilly, as well as Mr. Steuerle and Mr. Eberstadt. Members of the Committee, this is a continuation of a decades-old line of attack by conservatives on America's longstanding commitments to aid the elderly and the poor, and I

am not sympathetic with that point of view, and it is a legitimate one that even rational people can hold or claim is an important consideration.

Now, there are a couple things that we want to keep in mind before the testimony of our witnesses comes forward. The first is that mandatory spending and stopping the entitlement crisis are really intended to slash programs such as Social Security, Medicare, and even parts of Medicaid. These are the programs that comprise the great majority of mandatory spending in the Federal budget.

According to the Congressional Budget Office, Medicare and Medicaid alone made up 40 percent of all mandatory spending in the last fiscal year. And Social Security, Medicare and the Federal share of Medicaid, the largest mandatory spending programs, comprised a little bit over 50 percent of all Federal spending. The budget deficit and the future solvency of the trusts that fund Social Security and Medicare are important issues in this discussion that merit close consideration.

But instead of putting forth a proposal that would help raise revenue, there are friends of mine on this Committee, in the majority, who propose to fund all these and other social safety net programs through the annual appropriations process, a process that often becomes mired in partisan division.

And so while they may protest that they would leave Social Security and Medicare alone, keep in mind that other important social safety net programs, such as food stamps, better known as SNAP, Temporary Assistance for Needy Families, better known as TANF, only account for 10 percent of the mandatory spending. So if the majority's plan for reducing the Federal deficit relies on cuts alone, you cannot do so simply by cutting funding for these important social safety net programs through the appropriations process. It cannot be done.

Subjecting Social Security, Medicare and Medicaid recipients to an annual appropriations process threatens to harm the basic economic well-being of seniors and working people in need. And if you do not believe me, hold a hearing in your congressional district, and let people know what you have in mind, and I think I can fairly easily predict what the result would be.

According to the Center on Budget and Policy Priorities, without any government income assistance, from safety net programs like Social Security, the Nation's poverty rate would almost have doubled in the year 2014. And so I am comparing some of these figures with what my colleague from Tennessee, Mr. Cohen, has already promoted with great skill, and so I will cut this very short.

Imagine the harm it would do to the most vulnerable members of our society if the funding for these programs were held hostage to yearly budget negotiations, or benefits were withheld because of a government shutdown, which, as we know, has occurred before. Unfortunately, this scenario is entirely possible, maybe even probable.

And so lastly, mandatory spending provisions are not a historical accident, where Congress gave away too much power to the executive. Rather, they more nobly reflect the Congress' commitment to the American people; to care for the elderly after a lifetime of considerably hard work, and to aid the working poor. Mandatory

spending for programs like Social Security and Medicare is simply based on the need to ensure stability in these and other vital programs, so that the most vulnerable in our society can be assured of minimum income standards to meet their basic human needs.

And so proposing to subject these programs to an annual appropriations process cannot be a very humane or charitable strategy. It may be accidental or inadvertent to denigrate the working poor and the elderly as undeservers, undeserving takers, something which I would love to discuss further. But I welcome the witnesses, I thank the Chairman, and I look forward to the discussion today. Thank you, Mr. King.

Mr. KING. Resisting the temptation to engage in debate, I thank the gentleman from Michigan. Without objection, other Members' opening statements will be made a part of the record.

And let me now introduce our witnesses. Our first witness is Eugene Steuerle, Institute fellow and Richard B. Fisher Chair at the Urban Institute; our second witness is Mr. Scott Lilly, senior fellow at the Center for American Progress; and our third witness is Nicholas Eberstadt, the Henry Wendt scholar in political economy at the American Enterprise Institute.

We welcome you all here today, and look forward to your testimony. Each of the witnesses' written statements will be entered into the record in its entirety. I ask that each witness summarize his testimony in 5 minutes or less. To help you stay within that timeframe, there is a light in front of you. The light will switch from green to yellow, indicating you have 1 minute to conclude your testimony. When the light turns red, it indicates the witness' 5 minutes have expired, and we appreciate you just working to that direction.

Before I recognize the witnesses, it is the tradition of the Task Force that they be sworn in. So, to the witnesses, please stand to be sworn. Raise your right hand.

Do you solemnly swear that the testimony that you are about to give will be the truth, the whole truth, and nothing but the truth, so help you God? You may be seated. Let the record reflect that the witnesses have all answered in the affirmative.

And now I recognize our first witness, Mr. Steuerle, for his 5 minutes of testimony. Please turn on the microphone, Mr. Steuerle.

TESTIMONY OF C. EUGENE STEUERLE, RICHARD B. FISHER CHAIR & INSTITUTE FELLOW, THE URBAN INSTITUTE

Mr. STEUERLE. Mr. Chairman, Mr. Cohen, Members of the Task Force, thank you for the opportunity to testify before you today. The views expressed are my own, and should not be attributed to the Urban Institute, its trustees or funders.

Let me begin by noting that we live at a time of extraordinary possibility, but you would not believe it by looking at the headlines. We have never been so rich, despite going through a recent Great Recession, and even though many needs remain unaddressed, and many do not share in that growth.

Yet partly because we are ruled over by dead men, and yes, they were men, we stand with our backs to an ocean of possibilities that lay at our feet. I try to show this by two means. First, a decline in what I call fiscal democracy—that is, the discretion left to cur-

rent voters and policy makers to determine how government should evolve. This index, which is shown on the screen above you, measures how much of our current revenues are pre-committed to programs that require no vote by Congress, or in technical terms, to mandatory spending programs.

This index, I should point out, is politically neutral. Fiscal democracy is reduced both through increases in mandatory spending, and reductions in taxes. By this measure, in 2009, for the first time in U.S. history, every dollar of revenue was pre-committed before the new Congress walked through the doors of the Capitol.

The second piece of evidence, which I will elaborate on more in my testimony, comes from simply comparing two budgets. First, a traditional budget, such as prevailed over most of this Nation's history, where spending is largely discretionary, and second, a modern budget, where growth in spending and tax subsidies are committed to rise automatically faster than revenues.

Congress and the President end up in a never-ending game of whack-a-mole, or should I say, whack-some-dough. No wonder there are still budget problems after deficit-reducing actions in 1982, 1983, 1984, 1987, 1990, 1993, 1997, 2005, 2011, 2013, 2015, among others.

Consider the consequences. It is not just the economic problems of rising debt, and the inability to respond adequately to the next recession; and the people who will be hurt in that recession or the next emergency.

It is also the political requirement imposed upon you, as legislators, to renege on promises to the public for both spending increases and low taxes, and in facing their wrath in the elections. Yet through the inability to work together, both parties lose their agendas, getting government that is both fat and ineffective at meeting public needs.

For example, out of a scheduled increase of close to $12,000 annually per household in additional spending and tax subsidies by 2026, almost nothing goes to programs that encourage the development of earnings, wealth, human and social capital. And kids get essentially nothing, nothing.

Restoring democracy requires nothing more or less than restoring greater discretion to the budget. That is easy to say economically, it is hard to say politically. Democrats must be willing to limit the share of spending that grows automatically.

And Republicans must do likewise for tax subsidies, while agreeing to collect enough revenues to pay our bills. And both the President and Congress need to be held responsible for all changes in the budget, whether newly-enacted or passively allowed to continue. Restoring discretion does not simply mean paring program growth, or raising taxes, but opening the door to modernizing programs to better meet public needs, including, as I elaborate again in my testimony, on providing greater opportunity for all.

I am not naive about the difficulty of reversing a multidecade decline in fiscal democracy. Yet until we restore greater discretion to the budget, the frustration and anger exhibited and shown to political parties by the public here and around the developed world will continue, deriving in no small part from a budget process that has

shifted national debates from what we can do to what we cannot do. That is, from letting dead men rule. Thank you.

[The prepared statement of Mr. Steuerle follows:]

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Dead Men Ruling

Statement of
C. Eugene Steuerle*
Richard B. Fisher Chair & Institute Fellow, Urban Institute

before the

Task Force on Executive Overreach of the Judiciary Committee
United States House of Representatives

"The Federal Government on Autopilot:
Mandatory Spending and the Entitlement Crisis"

Wednesday, July 6, 2016

*The views expressed are my own and should not be attributed to the Urban Institute, its trustees or its funders. I thank Caleb Quakenbush for help preparing this testimony.

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Mr. Chairman and Members of the Task Force:

Thank you for the opportunity to testify before you today. The views expressed are my own and should not be attributed to the Urban Institute, its trustees or its funders.

In my testimony, I will emphasize three points:

1. Our nation has never before been so rich, yet we stand with our backs to the ocean of possibilities that lie right at our feet.

2. Dead men rule over us, as past legislators and presidents have put into the law a restriction unique in all of our history: almost no discretion or flexibility to act to address new challenges and possibilities without having to renege on past promises to the public.

3. Restoring greater discretion would be a win-win for both the public and our political parties. The track we are now on involves an ever-larger and increasingly dysfunctional government, an economic policy that does ever less to promote opportunity for all and leaves us with a budget for a declining economy, and a politics where if either party truly leads, it loses.

To recognize our possibilities and restore discretion, we must not confuse the symptoms for the disease. I believe both the deficit and the frustration over lack of prerogative expressed by both this task force and the president are symptoms. Treating only those symptoms has proved and will continue to prove inadequate to the underlying disease of a budget increasingly driven by past commitments.[1] This frustration, I should add, is shared by the public in most developed nations who, told that past legislators' choices have locked out making rational choices for how to change course, try to recapture some sense of control through policies at times even more harmful to their own economic and personal growth.

A Time of Extraordinary Possibility

We live at a time of extraordinary possibility, but you wouldn't believe it by looking at the headlines. We have never before been so rich, richer than we were before the Great Recession, and the richest nation ever on the face of the earth.

Yes, our economy is growing more slowly than desired, many needs remain unaddressed, and many do not share in that growth. Yet sluggish growth doesn't mean we are poorer nor lack options. Consider: federal spending and tax subsidies are scheduled to increase

[1] Much of this testimony expands on C. Eugene Steuerle, *Dead Men Ruling: How to Restore Fiscal Freedom and Rescue Our Future* (New York: Century Foundation Press, 2014).

in real terms (after inflation) by close to $2 trillion or about $12,000 per household just 10 years from now, supplied mainly by the revenues that would accompany even tepid economic growth.

True, this amount must be pared to avoid using higher deficits as a major means of finance. But my point remains: economic growth has always provided enormous possibilities to reform and adjust to modern needs and wants. Over the long run it creates the majority of new resources available, regardless of whether government grows or shrinks relative to the economy. And it provides the ability to act anew, including, as I will discuss, on the commonly stated but increasingly ignored objective of both political parties to provide greater opportunity for all. But our ability to act is weakened if nearly the entire future direction of government is left preordained by past legislators for a future they could not possibly anticipate.

Dead Men Ruling

The rule of dead men (and, yes, they were mostly men) can be demonstrated in various ways. I will show two: a decline in what I call fiscal democracy—the discretion left to current voters and policymakers to determine how the returns of economic growth are used—and the emergence of a long-term budget problem unique to our time.

Fiscal democracy index. Consider a simple index that I developed with Timothy Roeper: it measures how much of our current revenues are precommitted to programs that require no vote by Congress or, in technical terms, to mandatory spending programs (figure 1). This index is politically neutral: fiscal democracy is reduced through both increases in mandatory spending (including interest on the debt) and reductions in taxes, as long as they occur only as giveaways for which no budgetary balance is sought.

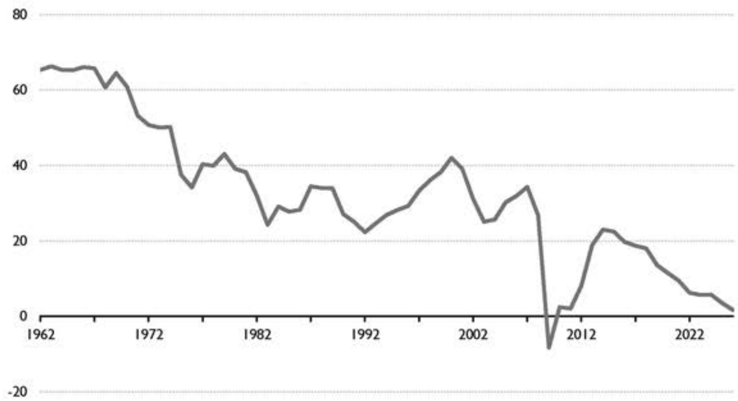
By this measure, in 2009 for the first time in US history, every dollar of revenue was precommitted before the new Congress walked through the doors of the Capitol. After a brief reprieve as the economy recovered from the Great Recession, the level of revenue left after mandatory and interest spending and tax expenditures is on its way back toward zero. This means, roughly speaking, that most or all discretionary spending is paid for out of deficits.

The long history of why this flexibility has declined can only be summarized here. Among the primary causes are automatic increases in some forms of mandatory spending, particularly for health care and retirement, often at rates faster than economic growth; the corresponding growth in tax subsidies, such as those for homeownership, that increase automatically over time just like mandatory spending; an unwillingness to collect enough revenues to pay our bills as we go along; and the corresponding feedback through a rise in interest costs that add to mandatory spending.

FIGURE 1

Steuerle-Roeper Index of Fiscal Democracy

Percentage of federal receipts remaining after mandatory and interest spending



Source: C. Eugene Steuerle and Caleb Quakenbush, 2016 calculations based on data from OMB *FY2017 Historical Tables* and CBO *Updated Budget Projections: 2016 to 2026*.
Notes: Projections assume current law.

The political dynamics are also fascinating. Over several decades, both political parties came to believe that they must act as Santa, offering higher spending with no taxes to support that growth, or lower taxes with no spending reforms to support those reductions. Crucially, they also came to compete not just over today's budget, but future ones.

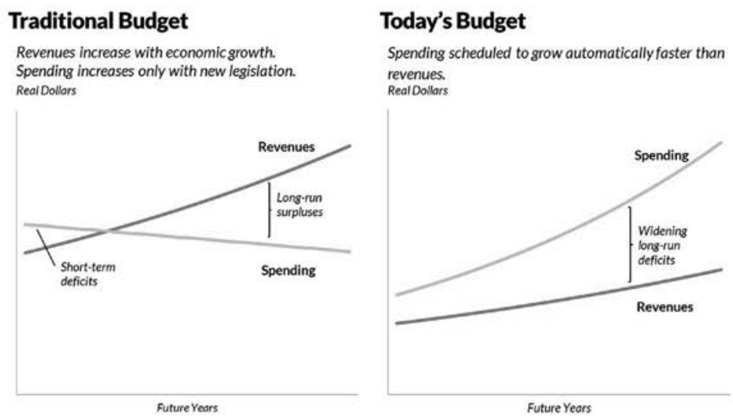
Imagine a business whose successive leaders tried to cement their legacy by signing contracts over how all future revenue growth, and then some, should be spent, and you get some idea of the nature of the problem. The results should be obvious: the company would lose out as its competitors continued to innovate while it senselessly catered to the whims of yesterday's market. It would lose the trust of its customers. In the same way, our nation and economy risks losing the confidence of its voters and missing opportunities to lead if we continue bowing to the political winds of years past.

The modern long-term budget problem. Economic growth normally provides the wherewithal to do things anew, whether for a household that can buy higher quality automobiles or electronics over time or a government that can pursue new agendas or return revenues to the public. In a traditional budget such as prevailed over most of this nation's

history, spending is largely determined by discretionary appropriations. Revenue in future years eventually and almost inevitably exceeds any future obligations, even if one assumes that the current level of spending is obligated to be sustained. Had the Congressional Budget Office (CBO) existed before 1975, its projections of what it calls "current law" would have shown massive and rising future surpluses. The left-hand graph in figure 2 shows a stylized example of this, where an initial deficit is followed by increasing surpluses under current law. Future Congresses would have had to increase spending or cut taxes to prevent those surpluses from creating significant economic slowdown.

FIGURE 2

Two Budget Scenarios



Pundits who lament the perceived loss of ability to compromise, at least on budgetary matters, often fail to understand that it was much easier to reach some final agreement when elected officials were tasked with returning money to taxpayers.

Don't misunderstand me. Traditional deficit problems existed when new Congresses added new spending faster than revenues would allow. But, politically, Congress and the president seldom had to rescind promises they made to the public. Discretionary spending for almost any program would not grow automatically and often would decline relative to the economy after the problem to which it was addressed rescinded.

A great example comes from Franklin Roosevelt and Harry Truman: after 20 years occupying the Presidency, they left domestic spending lower as a share of the economy than it was when they entered the White House. Most of the growth in discretionary spending during the Great Depression ended after unemployment declined; it didn't have automatic, perpetual growth built into it. Defense spending, of course, grew during World War II, but that discretionary spending too has since declined substantially relative to the size of the economy.

When temporary imbalances did loom large on occasion, a stalemate over new spending or tax cuts was often enough to quickly restore reasonable balance.

Today's long-term budget scenario departs significantly from the traditional scenario described above. Much spending now has automatic growth built into it and, as a consequence, is projected to grow as fast as or faster than revenues and the economy. Even a major deficit reduction package for a few years leaves a long-term imbalance when spending is automatically growing faster than revenues, as shown in the second graph in figure 2.

By focusing mainly on the short or near term when trying to tackle budget problems, Congress and the president have ended up in a never-ending game of Whack-A-Mole or, should I say, Whack-Some-Dough. No wonder there are still budget problems after deficit-reducing actions in 1982, 1983, 1984, 1987, 1990, 1993, 1997, 2005, 2011, 2013, and 2015, among others. Had more discretion existed in the budget, both the tax cuts of the George W. Bush administration and the health reforms of the Obama administration would have been easily affordable, even without some of the so-called pay-fors, if that is how we decided to spend the additional revenues made possible by economic growth.

The Need for Discretion

Consider what lack of discretion is doing to the economy and the goals of both political parties.

Rising debt. Ever-increasing debt at a minimum means that we have less available to spend on noninterest items. Or, correspondingly, we need higher taxes to support what noninterest spending we have. We also shift burdens to future generations while potentially dampening economic growth.

Inability to respond to the next recession or other emergency. We have ever less ability to engage in fiscal policy to respond to the next recession, an inability we can see already in many European countries that responded weakly to recessions that followed the global financial crisis.

Reneging on promises to the public. When the budget is overcommitted, legislators and the president must eventually renege on promises, for program expansion and for low taxes.

If a political party leads, it loses elections. If both parties fail to unite to restore discretion, they both lose. We the voters seldom reward, and usually punish, the party that leads in reneging on past promises. Democrats and Republicans find themselves in a prisoners' dilemma, which can be defined loosely as, "if you lead, you lose." Restoring greater discretion would actually enable both parties to succeed more on their agendas than the status quo.

A budget for a declining nation. Even if all the above economic problems were solved—for instance, there was no danger from rising debt and money was available to respond to future emergencies—we would still be left with a budget for a declining nation. My and my colleagues' research shows this in various ways. In an annual *Kids' Share* study we have conducted for a decade, we have shown that, excluding modest growth in health spending, kids are scheduled to get nothing out of the revenues that accompany economic growth.[2] Their share of the federal budget as a share of the economy is scheduled to fall significantly.

In a related exercise, I also have approximated how much of future increases in spending and tax subsidies are going toward programs that provide opportunity for all.[3] As noted, CBO projections show that real spending and tax subsidies of the federal government will rise by close to $2 trillion by 2026, or more than $12,000 annually per household. Yet almost nothing goes for programs that broadly encourage the development of earnings, wealth, human and social capital, or what I have labeled "opportunity for all" programs (figures 3 and 4). The opportunity programs that exist are dominated by tax subsidies that largely exclude lower-income households.

Similar exercises, such as that conducted annually by the Office of Management and Budget, show that the investment side of the budget is also in decline as a share of outlays and national income.[4]

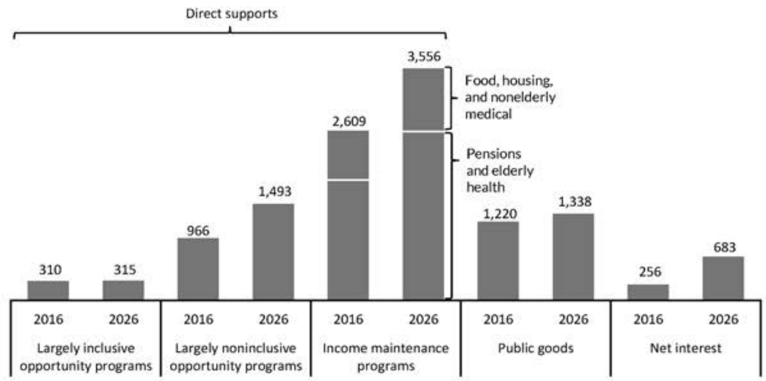
These observations on a budget for a declining nation reflect the shares of the budget devoted to various categories and tend to hold whether government becomes larger or smaller relative to the economy.

[2] http://www.urban.org/policy-centers/cross-center-initiatives/kids-context/projects/kids-share-analyzing-federal
[3] C. Eugene Steuerle, *Prioritizing Opportunity for All in the Federal Budget: A Key to Both Growth in and Greater Equality of Earnings and Wealth* (Washington, DC: Urban Institute, 2016).
[4] The most recent volume of the *Analytical Perspectives to the President's Budget*, for example, shows that total federal investment was about 13.3 percent of federal outlays and 2.8 percent of GDP in fiscal year 2015. OMB projects that investment will be about 12 percent of federal outlays and 2.6 percent of GDP in fiscal year 2017, with non-defense investment declining in absolute terms by $1.4 billion.

FIGURE 3

Total Outlays and Tax Expenditures for Major Budget Categories under Current Law

Billions of 2016 dollars

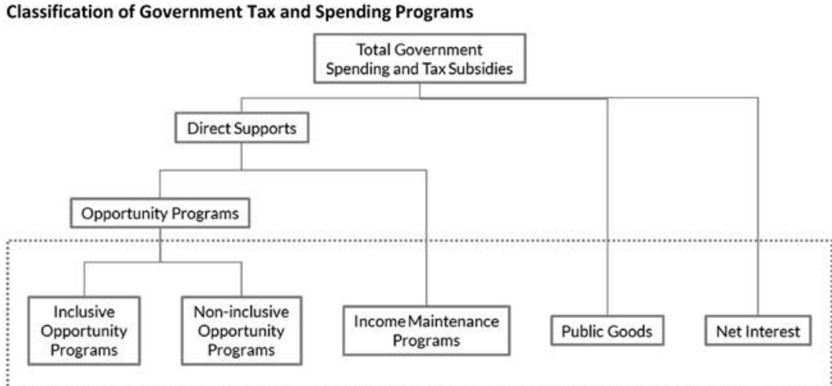


Source: Author's tabulations of Congressional Budget Office data.

Notes: Public goods include such items as defense, infrastructure, and research and development that benefit the population broadly. Direct supports are programs and transfers that benefit households and communities, such as health care and education. Within direct supports, income maintenance programs such as Social Security, Medicare, and SNAP (formerly food stamps) protect a certain level of income and consumption, while opportunity programs aim to increase private earnings, wealth, and human capital. Largely inclusive opportunity programs benefit low- and middle-income groups, while noninclusive opportunity programs largely exclude them or provide them with fewer supports than upper-income groups.

FIGURE 4

Classification of Government Tax and Spending Programs



Conclusion

Restoring fiscal democracy and removing the long-term budgetary problem requires nothing more or less than restoring greater discretion to the budget. More discretion does not preordain the size of the government—the primary battle between the major political parties—but simply leaves more decisions democratically to future voters.

How can greater discretion and flexibility be restored? And what opportunities does it open up?

- Enact fundamental reforms to limit the share of the spending on automatic pilot, with particular attention to programs with high automatic growth, in areas like health and retirement policy;
    - For instance, each health program can be put within a budget, though this requires empowering someone, somewhere, through vouchers, price controls, bundling payments, or other methods to stay within the budget. Adopting no method in many ways is worse than allowing elections over time to decide which methods will be favored and hopefully adapted to the knowledge newly accrued.
- Use caps and reauthorization requirements to serve as back-ups to the ultimate requirement to reform each program to best fulfill its basic goals;
    - For instance, when Social Security is stated as out of balance in several succeeding Trustees Reports, and no comprehensive reform is enacted, limits can be put on future scheduled increases in years of support and on real growth in benefit levels for those with above-median incomes;
- Apply to tax expenditures or subsidies the same types of constraints required for direct spending;
    - For instance, housing tax subsidies should not rise automatically from one generation to the next without any decision by Congress. Why not consider allocating increases toward programs like first-time homebuyers' credits that would do more to increase investment in housing?
- Barring recessionary considerations, collect enough revenues to cover expenses;
    - For instance, health cost growth could be tied directly to tax increases. Recognizing the true burden of spending by assessing the taxes necessary to pay for it would likely pressure official to keep government leaner than would hiding those spending increases in burdens passed onto future generations;
- Present the budget in a way that holds the president and the Congress responsible for all changes in the budget, both those they propose or enact, and those that they allow to continue.

- For instance, when the president submits a budget, CBO should show up front how the total change in real spending, both that newly proposed and that deriving from automatic growth in spending, is being allocated. Current law allocates essentially all of it to health and retirement and interest on the debt, with essentially nothing for anything else. The president and Congress should accept accountability for maintaining that choice, if that is the result of their decisionmaking or lack thereof.

Restoring discretion does not simply mean paring programs or raising taxes. It turns us so we can now see that ocean of possibilities at our feet. Consider how even a budget balanced but still preordained promotes a declining economy. Greater discretion gives us the chance to strengthen protections for the most vulnerable in a pro-growth way, with particular attention to programs like wage subsidies, education, preventive health, and private pension reform that promote opportunity, not simply consumption. Here I see budget reform as opening the door to modernizing programs to better meet the realities of today's economy and the evolving needs of the public.

I am not naïve. It will be difficult politically to reverse a multidecade decline in fiscal democracy and a budget that increasingly threatens a declining nation. However, failure to act will only make matters worse—not just for the public but for both political parties. The frustration and anger faced by political parties here and around the developed world derives, at least in part, from a budget process that has shifted the debate from what we can do to what we can't—that is, from letting dead men rule.

Mr. KING. Thank you, Mr. Steuerle. The Chair now recognizes Mr. Lilly for his testimony. Mr. Lilly?

TESTIMONY OF SCOTT LILLY, SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS

Mr. LILLY. Thank you, Mr. Chairman, Ranking Member Cohen, Chairman Conyers. I think it is striking that the three of us largely agree on one essential element here, and that is that the Federal debt, the growth of Federal spending, is driven entirely by entitlements.

I think it is important to go beyond that, and look at the entitlements that are driving the debt. And those entitlements are Social Security, Medicare, and Medicaid. Those, if you look at real per capita growth of Federal spending over the last 30 years, those three programs by themselves accounted for more than 100 percent of the growth. In other words, the rest of the government shrank.

So all of the vitriol about the bureaucracy being out of control, about the growth of the Federal Government, so forth and so on, is basically false. The government as we think of it—the 15 departments and all of the independent agencies—has actually shrunk in size if you measure it by real per capita spending.

What has changed is the amount of money that we send out to individuals across the country. And that has gotten very expensive, because we have—in the past, we had about half a million people a year reaching retirement age. Today we have a million and a half people a year reaching retirement age, and so it is a lot more expensive to take care of.

Where I think I may disagree with my colleagues, at least to some extent, is what do we do about that problem? CBO estimates that Federal expenditures are going to rise from 19 or 20 percent of GDP, which they have been historically, to around 24 percent of GDP, as the progression of retirement increases. I think that is a reality that we all have to, regardless of our views of entitlement programs or the benefits of them, we need to face that reality. I do not think this country is ready to do the things that some people advocate, particularly the placement of Social Security benefits under the appropriations process.

The average monthly benefit under Social Security for a retired worker is $1,350. More than $350 of that amount goes to out-of-pocket medical expenses. So if you believe that somebody can live well on less than a thousand dollars a year for all other expenses other than medical care, than this proposal works fine. If you think that that is not enough, and the vast majority of Americans, according to polling, think that it is not enough, then you have to come up with some combination of entitlement reform and tax increases. I think a large portion of it is going to have to come from tax increases, because I do not think either the elderly are willing to live on less, nor are their children willing to pay more for their retirement costs.

As a result, this country would have to increase revenues substantially, but it is not out of the line. In fact, we would still be one of the lowest-taxed Nations in the world if we paid the cost of those retirement benefits. So I would like to expand on that in the question period, but I think we need to understand the problem,

and I think this hearing is a good thing for helping people understand what the problem is. But we also have to think about the consequences of various alternatives of dealing with it.

[The prepared statement of Mr. Lilly follows:]

STATEMENT

OF

SCOTT LILLY

SENIOR FELLOW, CENTER FOR AMERICAN PROGRESS;
ADJUNCT PROFESSOR, LYNDON BAINES JOHNSON SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF TEXAS;
FORMER CLERK AND STAFF DIRECTOR, HOUSE COMMITTEE ON APPROPRIATIONS

BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES

COMMITTEE ON THE JUDICIARY, TASK FORCE ON EXECUTIVE OVERREACH

"THE FEDERAL GOVERNMENT ON AUTOPILOT;
MANDATORY SPENDING AND THE ENTITLEMENT CRISIS"

JULY 6, 2016

Thank you Chairman King, Ranking Member Cohen, and Members of the Task Force. I appreciate the opportunity to appear here today to discuss the problems we face with mandatory spending and the need to restore the role of the Congress in federal policy making.

I would first like to congratulate the task force for hosting this discussion. I along with a number of my colleges have worried for more than a decade that the power of the Congress is in decline and that a diminished Congress will inevitably lead to the kind of abuse of executive branch authority that our founding fathers worked very hard to avoid.

Understanding the nature and causes of Congressional decline is important not simply for restoring the first branch of government but for restoring balance and stability to our system of government and protecting the rights and freedoms of our citizenry.

The first point, I would like to make is that what this committee refers to as "executive overreach" is not a new thing. The founding fathers knew that the people who would hold the office of president would be ambitious men. Further, they understood that such men would be mission oriented and they would use the considerable powers at their disposal to accomplish the goals they would set for themselves and for the nation. The current occupant of the White House is certainly no worse than the majority of his predecessors and as someone who served on the staff of the House Appropriations Committee during most of the first term of his immediate predecessor I can assure you his attempts at overreach pale by comparison.

I think history will demonstrate that nearly all presidents have over reached and that is why the founders provided the Congress with the broad powers detailed in Article One.

The failing of the Congress to use those powers is not the fault of the president, that failing rests squarely on the shoulders of the men and women who occupy the House and Senate and their ability to function as an effective legislative body.

If one were to identify a single malady that has led to the current diminished state of the Congress, it is the inability of the institution to perform the task that it was created for—to legislate. As the deliberations at the Constitutional Convention made the founding fathers painfully aware, the essence of legislating is compromise. A legislature that can't compromise can't legislate and today, perhaps more than ever before, we have candidates for Congress being elected on the promise that they will not compromise. Everybody wants it their way and the views of those seeking the serve in the Congress have become significantly more extreme and more removed from a possible middle ground a middle ground that would allow legislation to be enacted.

A significant second problem is the work ethic. I first worked on Capitol Hill 50 years ago during the summer of 1966 when John McCormack was Speaker and Lyndon Johnson was President. I returned to work continuously for the Congress from 1973 to 2004 and I have watched Congress at fairly close range in the 12 years since then. The one thing that experience left me fairly certain of is that you can't legislate if you are not here and you can't oversee the executive branch if a large portion of your time is consumed by making phone calls to your contributors, holding town hall meetings with your constituents or spending quality time with your family.

Simply look at this year's calendar posted by Majority Leader McCarthy. It is remarkable. Of the 251 days in 2016 that are neither weekends nor holidays, the House is in session only 110 and out of session 141. But the story gets worse. There are 28 of those 110 days in which first votes aren't

until 6:30 p.m. and another 26 on which the leadership promises that last votes will occur before 3:00 p.m.—so in effect you have 56 full days of session. By contrast you have 84 full days of "district work" and an additional 51 week days that are not scheduled for work in either Washington or the district.

I went through my first full round of budget hearings in the spring of 1974 on what was then called the Labor-HEW subcommittee. Members were expected to be in attendance and the subcommittee met both in the morning and afternoon and often for 4 or 5 days a week. We held a separate hearing for each of agency and often for administrative entities or activities within agencies. For instance, every year we held a separate hearing for each of the separate institutes within the National Institutes of Health. Today, the subcommittee dismisses NIH witnesses after one morning's testimony on the agency's $30 billion budget

When the time came to put that appropriation bill together the markup often lasted several days. Members argued passionately for specific priorities within the jurisdiction of the subcommittee with some items not being resolved before hours of debate had taken place and every member of the subcommittee had weighed in on one side or the other. There were hundreds of separate programs within that bill and nearly all members of the subcommittee had detailed working knowledge of the majority of them.

Perhaps the seminal work on this subject, a book entitled The Power of the Purse by political scientist and congressional expert Richard Fenno, was published in 1966. Fenno conducted more than 90 interviews with Congressional leaders, Appropriation Committee Members, staff and executive branch officials over a period of 6 years. More recently the full text of Fenno's interviews have become available through the National Archives. Here is an excerpt from one interview of a relatively junior member of the Appropriations Committee at the time explaining how his particular subcommittee chairman manages the hearing process. I think that it is quite telling:

> He knows the bill backwards and forwards. He works it hard, awfully hard and the members know it. He's worked with these people for years. And he knows them like a book. He does more work on the bill than all the other members combined…in the hearings he develops his case so completely, has his questions ready and takes maybe two days questioning the witness. When he's through, there isn't much left to ask about. It's all in the record.

I think the members of the Appropriations Committee still work hard but their efforts pale in comparison to this standard. Given the work schedule of the current Congress developing such expertise would be impossible even for the most dedicated member.

There are other impediments as well. The change in the rules of the House Republican Conference imposing term limits on committee and subcommittee chairs is a huge problem. About the time that a member develops the level of expertise necessary to effectively challenge the executive branch on policy matters he is pulled completely out of that jurisdiction and given a different assignment.

In 2002, Ralph Regula of Ohio had more expertise on public land policy which included the operations of such agencies as the National Park Service, the Forestry Service and the Bureau of Land Management and so on than any member of Congress on either side of the Capitol. He had studied those problems and the men and women who managed those agencies for decades. The effect of this rule was to remove Regula from that jurisdiction and move him to assume the chairmanship of the Labor-H subcommittee—a subcommittee that he had never previously served on. It was a red letter day for bureaucrats in the Departments of Interior, Health and Human Services, Labor and Education. It was a very bad day for the Congress.

Term limits for committee chairs has not only weakened the expertise of committees it has weakened the ability of committees to use the limited expertise that they do retain. The fact that nearly every committee chairman is a potential candidate for a different chairmanship once his term has expired has greatly reduced the independence and power of committees relative to their own leadership. This centralization of power in the House has shifted decision making from committee members and staff whose job it is have expertise on programs and policy matters before their committee to members of the leadership and their staff who view the world on a far less substantive basis and often without an even a rudimentary understanding of the policies and programs involved.

Finally, I think it is a serious problem that so many people leave the Hill at such an early point in their careers. Working for a legislature that does not legislate seems to provide minimal gratification. The ability of the Congress to build the kind of expertise necessary to truly track the activities and accomplishments of executive branch agencies is highly dependent on not only attracting capable staff with skills relevant to that task but to retain and train them over an extended period of years. The ability of the Congress to do that is markedly lower today than at any time since I began working up here 50 years ago and during that period the complexity of government and the issues with which it must grapple has grown exponentially.

The specific issue being raised in this hearing is mandatory spending and the extent to which such legislation limits the discretion of the Congress or inversely expands the power and authority of the executive. I hope that you will forgive me, but I find the juxtaposition of these two important questions somewhat odd.

Entitlements do limit the flexibility of government in setting fiscal policy. They in essence guarantee that certain amounts will be available to selected beneficiaries regardless of other fiscal pressures facing policy makers. But this is not a guarantee that advantages the executive branch at the expense of the legislature. Unlike discretionary funds, the bureaucracy has very little choice in how entitlement funds are disbursed. They flow directly from the Treasury to the beneficiary based on formulas contained in law.

Trust funds used for the purpose of administering these programs must be appropriated on an annual basis by the Congress and are therefore discretionary dollars not entitlement spending. Further, as the following analysis demonstrates, entitlement programs are clearly squeezing out discretionary spending which is the life blood of the executive branch. If there is a balance of power issue here it is one that is at the expense of the executive branch.

But let's turn first to the role that mandatory programs play in the growth of overall federal spending. Thirty years ago we spent $416 billion on mandatory programs. Last year we spent $2.3 trillion—a 453 percent increase. Even when we adjust for inflation and population growth, Mandatories have grown by 92 percent.

So what is driving this terrific growth in mandatory spending? There are literally hundreds of Mandatory programs but as far as the growth of federal spending is concerned there are only three programs that really matter—Social Security, Medicare and Medicaid. As a country, we spent a little more than $2600 per person in 2016 dollars on these big three entitlements in 1985. Thirty years later we spent $5900 on those same three programs—a 124 percent increase. After adjusting for inflation we were spending $3300 per person more on those three programs than we had had spent 30 years earlier and during that period, real per capita federal spending on all programs grew by less than $2800. Everything in the budget besides Social Security, Medicare and Medicaid was shrinking.

Why has there been such a huge increase in the cost of these programs? There have been some benefit increases such as the creation of Part D under Medicare and the expansion of Medicaid under the

Affordable Care Act. But even without those benefit expansions, these three programs would have accounted for more than 100 percent of real per capita growth.

There are essentially three big problems. Demographics, longevity and better health care. The Great Depression and World War II were followed by a huge increase in the birth rate in this country that lasted until the early 1960s. Further, people born in 1930 on average did not make it to age 60. People born 20 years later in 1950, (the approximate age group who are becoming eligible for Social Security and Medicare in the current year) could on average expect to reach the age of 68. So far more Baby Boomers are reaching retirement age than was true of the previous generations and they are living much longer in retirement.

Finally, we have seen enormous strides in the quality of medical care and its availability to the population. That is not only increasing longevity but also the cost treatment. Medicare and Medicaid pay the vast majority of those costs for our rapidly growing elderly population.

Medicaid is often viewed as the health care program for nonelderly. Even before the Affordable Care Act, three quarters of the enrollees were non-elderly. But 5 percent of Medicaid enrollees account for more than 50 percent of Medicaid costs and the elderly and disabled account for well over half of all billings.

The big ticket item for this group is long term care which totals about 30 percent of Medicaid costs. Before reaching a skilled nursing facility, many seniors go through prolonged periods of home health care or as residents in assisted living facilities. Thirty-five percent have depleted all of their resources and qualify for Medicaid when they arrive in nursing homes. Seventy percent qualify before they complete their stay. As a result Medicaid is crucial to not only low income seniors but for all but the most well to do, it is the long term care insurance of last resort and it is critical not only to those seniors who eventually need long term care but for their families who would be left with a financial burden far heavier than they could likely shoulder.

Ultimately, there is one set of numbers that you need to remember when thinking about this nation's entitlement problem. As of last month, the average monthly benefit for a retired worker under Social Security was $1,348. A senior attempting to avoid large unexpected out of pocket health care costs would likely pay more than $350 of that amount just for premiums under Medicare Part B, C and Part F MediGap coverage. That still does not include the out of pocket expenses he or she would face for

deductibles, co-payments, over the counter medications, hearing or dental care. So we are looking at considerably less than $1000 a month to meet all of other expenses.

Anyone who wants to do something serious about reigning in government spending isn't going to get to first base if they don't go after mandatory spending. Anyone who says they are going significantly alter the growth rate of mandatory spending and claims they are simultaneously going to protect retirement programs is either grossly misinformed or lying. We have 45 million beneficiaries. That is where the money is going and it is going to be a very ugly task to make serious savings. You can protect Social Security and put that on your bumper sticker but ultimately if you make the savings by cutting Medicare and or Medicaid as a number of proposals before the House have done in recent years you are directly cutting the amount that millions of elderly Americans have to live on after meeting their medical bills and that amount is already painfully small.

By way of example I would point to the proposal that Speaker Ryan placed in the FY 2012 Budget Resolution reported by the House Budget Committee when he was chairman. Ryan limited federal payments under Medicare by providing beneficiaries with credits to buy private insurance. When that proposal was reviewed by the Congressional Budget Office, they estimated that out of pocket expenses for a typical beneficiary would increase dramatically. According to CBO the out of pock medical expenses would average $870 a month leaving a typical retiree receiving the current average monthly benefit of $1,348 with only $500 a month to meet all expenses other than health care.

I know that there are lots of people who will say; "oh that is not what I mean by entitlement reform. I only want to cut the undeserving who are of working age but won't do their part. We should attack entitlement programs in general while protecting retirement benefits"

The problem with that is the numbers. We spend painfully little in this country on poor people who are not elderly. Fully 73 percent of mandatory funds go for Social Security, Medicare and Medicaid, Another 8 percent is also retirement money, military and civilian retirement and veteran pensions and so forth. The portion of mandatory spending that goes largely to non-elderly low income individuals, programs like the Children's Health Initiative, Earned Income Tax Credit, Supplemental Nutrition or Food Stamps, Unemployment Compensation, Family Support and Foster Care and Child Nutrition add up to only 10 percent of mandatory spending. What's more, the Congressional Budget Office projects that outlays for that set of programs will shrink substantially in real per capita terms over the coming decade.

I would like to conclude by addressing a comment I heard from a talking head on my T.V. set over the weekend. He said, "There was nothing wrong with country I grew up in" and he strongly implied that there was nothing wrong with going back to that country. I simply offer these statistics in rebuttal.

Over the past fifty years we have brought about a remarkable transformation in the nature of retirement and the quality of life of our senior citizens. In 1959 more than 30 percent of seniors lived in poverty and only 25 percent had health insurance. Now, nearly all have health insurance and less than 9 percent live in poverty, the lowest of any age group.

Unfortunately, many seniors still live close to the edge. The average Social Security monthly check is $1,268 of which about $350 goes to out-of-pocket medical expenses not covered by Medicare. Twenty-five percent of Social Security beneficiaries have no income other than their monthly check. Sixty-six percent depend on Social Security for most of their monthly income. But providing these benefits has required a substantial commitment on the part of the federal government.

We now must decide whether or not it was worth it or whether we want to go back to that well remembered era when entitlement spending was only a fraction of the budget and a small percentage of the overall economy.

Mr. KING. Thank you for your testimony, Mr. Lilly, and the Chair now recognizes Mr. Eberstadt for his testimony.

TESTIMONY OF NICHOLAS EBERSTADT, HENRY WENDT CHAIR IN POLITICAL ECONOMY, AMERICAN ENTERPRISE INSTITUTE

Mr. EBERSTADT. Mr. Chairman, distinguished Members, co-panelists and guests, it is an honor to be here today. May I ask you to put up my first slide, please?

[Slide shown.]

Mr. EBERSTADT. Over the past half-century, American politics, American governance and the American way of life itself have been transformed by the growth of public expenditures on social entitlement programs. In just——

Mr. KING. Mr. Eberstadt, could you move the microphone a little closer? Thank you.

Mr. EBERSTADT. In just two generations, the government of the United States has effectively become an entitlements machine. As a day-to-day operation, the U.S. government devotes more attention and resources to the public transfer of money, goods and services to individual citizens than to any other purpose, and the Federal Government more to these ends than to all other purposes combined. Over these same years, entitlement transfers have become a major component of the family budget of the average American household, and our dependence on these government transfers continues to rise.

The first law of social policy is that government programs come not only with intended consequences, but with unintended ones as well. Fifty years into our great social experiment of expansion of entitlement programs, there is ample evidence to indicate that the unintended consequences of this reconfiguration have been major, and adverse. Why do we not go on to that? Until about 1965, the accepted purpose of the Federal Government, in keeping with its constitutional charge, was governing.

The Federal Government spending patterns reflected that mandate. The overwhelming share of Federal expenditures was allocated to defending the republic against its enemies foreign and domestic, and some limited public services and infrastructural investments.

In fiscal year 1965, according to OMB, Federal entitlement programs expended about 28 percent of the Federal Government's total outlays. By FY 2015, entitlement programs reportedly accounted for fully 72 percent of Federal Government total expenditures.

Thus in a very real sense, American governance has literally been turned upside down by entitlements, within our lifetimes. A half-century of extraordinary expansion of entitlement outlays has completely inverted the priority, structure and functions of the Federal administration, as these had been understood by all previous generations of Americans. May I ask for the next slide, please?

[Slide shown.]

Mr. EBERSTADT. And the one after that.

[Slide shown.]

Mr. EBERSTADT. The explosive growth of entitlement outlays was accompanied by a corresponding surge in the number of Americans who had routinely applied for and accept government benefits. Despite episodic attempts to limit the growth of the welfare state, or occasional assurances that the era of big government was over, the pool of entitlement beneficiaries apparently has grown continuously.

Can we go to the next one, please?

[Slide shown.]

Mr. EBERSTADT. This may be a little bit difficult to see. Between 1983 and 2012, the percentage of Americans participating in entitlement programs jumped by nearly 20 percentage points. Less than one-fifth of that 20 percentage-point jump can be attributed to increased reliance on the two old age programs—Medicare and Social Security.

Overwhelmingly, the growth in claimants has stemmed from an extraordinary rise in means-tested entitlements. All told, more than 35 percent of Americans were taking home at least some benefit from a means-tested program by 2012, nearly twice the share in 1983.

America today is almost certainly the richest society in history, at any time, and it is also certainly more prosperous and productive now than it was three decades ago. Yet paradoxically, our government behaves as if Americans have never been more needy.

Until and unless some sort of forcing financial crisis suddenly restricts the resources available to it, continued growth of the entitlement state looks very likely in the years immediately ahead. And at this writing, I myself see no such forcing crisis on the horizon. If that prognosis is correct, we may expect the inadvertent consequences, to which I detail in my prepared statement the rise of our entitlement state, to become still more acute in the coming years. Thank you very much.

[The prepared statement of Mr. Eberstadt follows:]*

***Note:** Supplemental material submitted with this statement is not printed in this hearing record but is on file with the Task Force, and can also be accessed at:

http://docs.house.gov/Committee/Calendar/ByEvent.aspx?EventID=105155

Statement before the House Committee on the Judiciary
Executive Overreach Task Force
"The Federal Government on Autopilot: Mandatory Spending and the Entitlement Crisis"

America's Entitlements Explosion

Evidence and Implications

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Over the past half century, American politics, American governance, and the American way of life itself have been transformed by the explosive and as yet still unfettered growth of public expenditures on social entitlement programs.[1] In just two generations, the government of the United States of America has effectively become an entitlements machine. As a day-to-day operation, the US government devotes more attention and resources to the public transfers of money, goods, and services to individual citizens than to any other purpose: and for the federal government, more to these ends than to all other purposes combined. Over these same years, entitlement transfers have become a major component in the family budget of the average American household—and our dependence on these government transfers continues to rise.

Needless to say, these social welfare outlays could not have expanded at such a rapid pace were they not extremely popular with both the voters and their elected representatives. Clearly there is an immense and unyielding demand for entitlements—and ever more of them—in modern America. And the rationale for these outlays—assuring the well-being of recipients, protecting the vulnerable, reducing the dangers of economic insecurity—are surely not objectionable; they are reasonable, even admirable. But the first law of social policy is that government programs come with not only intended consequences, but unintended ones as well. Fifty years into our great social experiment of massive expansion of entitlement programs, there is ample evidence to indicate that the unintended consequences of this reconfiguration of American political and economic life have been major and adverse.

Background

Government entitlement payments are benefits to which a person holds an established right under law (i.e., to which a person is entitled). A defining feature of these payments (also sometimes officially referred to as government transfers to individuals or personal current transfer receipts) is that they "are benefits received" by individuals "for which no current service is performed."[2] Entitlements are a relatively new concept in US politics and policy: according to Merriam Webster, the first known use of the term as such was not until 1942.[3] But entitlements have become very familiar, very fast.

In 1965, according to the Bureau of Economic Analysis (BEA), the unit of the Commerce Department charged with estimating American GDP (National Income and Product Accounts, or NIPA), current US government transfers to individuals ("government social benefits to persons") from all programs totaled about $34 billion.[4] By 2015, the direct outlay for entitlements was over $2.6 trillion—more than 75 times bigger. (That sum, incidentally, does not include the many hundreds of billions of additional dollars required to support the personnel and bureaucracies

[1] This testimony draws upon revises and updates passages from previous publications. Nicholas Eberstadt, *A Nation of Takers: America's Entitlement Epidemic* (Templeton Press, 2012); and Nicholas Eberstadt, "American Exceptionalism and the Entitlement State," *National Affairs* 22 (Winter 2015), http://www.nationalaffairs.com/publications/detail/american-exceptionalism-and-the-entitlement-state.
[2] US Department of Commerce, Bureau of Economic Analysis, "State Personal Income," March 25, 2015, http://www.bea.gov/newsreleases/regional/spi/2015/spi0315.htm.
[3] *Merriam Webster*, s.v. "entitlement," 2012.
[4] US Department of Commerce, Bureau of Economic Analysis, "National Data," Table 2.1, accessed June 29, 2016, http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&904=2014&903=58&906=a&905=2016&910=x&911=1.

that administer these transfers.) For a full half century, entitlement transfers were growing at an annual pace of about 9 percent a year. That tempo is of course exaggerated by concurrent inflation—but after adjusting for inflation, entitlement payments still soared more than 13-fold, with an implied average real growth rate of about 5.3 per annum between 1965 and 2015. Even after adjusting for inflation and population growth, real per capita entitlement transfers to individuals have octupled since 1965, an average implied pace of about 4.2 per annum.

From 1965 to 2015, real per capita income in America grew by a measured 2.1 percent per annum on average.[5] In other words, total entitlement payouts on a real per capita basis have been growing twice as fast as per capita income over the past 50, and well over twice as fast as the rest of US personal income. Thus in just 50 years, the share of entitlement transfers in overall US personal income nearly tripled, from about 6 percent to over 17 percent.

In 2015, the burden of entitlement transfers came to slightly more than $8,100 for every man, woman, and child in America. Scaled for a notional family of four, the average entitlements burden for that year alone would have exceeded $32,000. Remember: that payout required payment from others, through taxes, borrowing, or some combination of the two. (And remember as well: that estimate of financial burden does not include the considerable additional administrative costs of the programs in question.)

Entitlement Spending and the Revolution in the Structure of the American Government

Until about 1965, the accepted purpose of the federal government, in keeping with its constitutional charge, was governing. The federal government's spending patterns reflected that mandate. The overwhelming share of federal expenditures was allocated to defending the republic against enemies foreign and domestic (defense, justice, interest payments on the national debt) and some limited public services and infrastructural investments (the postal authority, agricultural extension, transport infrastructure, and the like). Historically, transfer payments did not figure prominently (or sometimes, at all) in our federal ledgers. All this, however, was about to change—and change radically.

In FY 1965, according to the Office of Management and Budget (OMB), federal entitlement program expenditures (that is, the transfers themselves plus the cost of administering them) accounted for somewhat more than a quarter (28 percent) of the federal government's total outlays—actually a little less than they had back in 1948. [See Figure 1] But then, in just a decade, the share of entitlement transfers in total federal spending shot up by 20 percentage points, hovering near the symbolic 50 percent mark. By the early 1990s, by the OMB's estimate, that threshold had been crossed—and by FY 2015, entitlement programs reportedly accounted for fully 72 percent of the federal government's total expenditures.[6] By FY 2015, in other words, all

[5] US Department of Commerce, Bureau of Economic Analysis, "Table 2.1. Personal Income and Its Disposition," accessed on June 26, 2012, http://www.bea.gov/iTable/iTableHtml.cfm?reqid=9&step=3&isuri=1&910=X&911=0&903=58&904=1929&905=2012&906=A.

[6] Office of Management and Budget, "Historical Tables," Table 6.1, https://www.whitehouse.gov/omb/budget/Historicals. Note that OMB and BEA NIPA estimates differ for the value of entitlement transfers, the share of entitlement transfers in federal expenditures, and other key measures. BEA

other responsibilities of the federal government—defense, justice, and all the other charges specified in the Constitution or undertaken in the intervening decades—made up just 28 percent of all federal budget outlays. [See Figure 2] Thus, in a very real sense, American governance has been literally turned upside down by entitlements—the meaning of "revolution"—within our lifetimes. A half century of extraordinary expansion of entitlement outlays has completely inverted the priorities, structure, and functions of federal administration as these had been understood and by all previous generations of American citizens. Indeed, the proportion of the national economy devoted to anything and everything aside from entitlements that the federal government undertakes has been slashed in half over the past half century; the fraction of the GDP given over to non-entitlement federal government expenditures plummeted from 13.2 percent in FY 1965 to 6.6 percent in FY 2015.[7]

The federal government is of course only one part of the overall US governmental structure: states and localities matter as well, and by constitutional design. Over the past 50 years, however, the exponential power of entitlement growth has come to match and now exceed all other current governmental functions. In calendar year 1965, according to BEA, current government consumption at all levels was nearly three times larger in magnitude than individual receipts from government transfer programs.[8] In calendar year 2015, for the first time, such personal expenditure receipt from entitlement transfers exceeded current government consumption expenditures, a proxy for general governance at all levels combined. [See Figure 3] Only when we add governmental investment projects into the mix do we see expenditures for everything else that government is doing in America very slightly outweigh entitlement transfer expenditures for the year 2015. [See Figure 4] But the balance has been shifting relentlessly, and if trends continue, personal entitlement receipts from government programs could soon be not only the largest single financial commitment of the entire US governmental apparatus but also a greater financial commitment than all other functions combined.

Entitlement Programs by Broad Category

The overall structure of government entitlement spending can be classified into just a few categories. US government budgeters divide these expenditures into six overall baskets: Income Maintenance, Medicaid, Medicare, Social Security, Unemployment Insurance, and all the others. [See Figures 5 and 6] Broadly speaking, the first two baskets attend to entitlements based on poverty or income status; the second two, entitlements attendant upon aging or old age status; and the next, to entitlements based on employment status. The first four of these entitlements accounted for 90 percent of total government transfers to individuals in 2014 (the most recent year for which BEA provides such a breakdown).[9]

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offers a methodological reconciliation of these differences. See US Department of Commerce, Bureau of Economic Analysis, "National Data," Table 3.18B, accessed June 29, 2016, http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&903=122.

[7] Office of Management and Budget, "Historical Tables," Table 14.5, accessed June 29, 2016, https://www.whitehouse.gov/omb/budget/Historicals.

[8] US Department of Commerce, Bureau of Economic Analysis, "National Data," Table 3.1, accessed July 29, 2016, http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=3&isuri=1&904=2014&903=86&906=a&905=2016&910=x&911=1.

[9] US Department of Commerce, Bureau of Economic Analysis, "Regional Data, SA35 Personal Current Transfer Receipts," accessed June 29, 2016,

By the BEA assessment, poverty or income-related entitlements—transfers of money, goods, or services, including health care services—accounted for over $750 billion in government outlays in 2014. These antipoverty or safety net benefits, however, comprised less than a third of overall transfer benefits that year. For their part, so-called "middle class" entitlements for older Americans—Medicare, Social Security, and other pension payments—amounted to over $1.4 trillion. And in purely arithmetic terms, the most astonishing growth of entitlements has been for health care guarantees based on claims of age (Medicare) or income (Medicaid). Until the mid-1960s, no such entitlements existed; by 2014, these two programs were absorbing much more than one trillion dollars a year billion.

The Rise in Entitlement Transfers in US Personal Income and in the Share of Entitlement Recipients in the American Population

As a purely arithmetic proposition, the dramatic increase in entitlement expenditures necessarily meant that the role of entitlements in US economic life had to rise: perforce with respect to share of personal income, and most likely as well with respect to the proportion of population in homes seeking and accepting such benefits as well. On both counts a sea change has taken place over the past half century.

As noted already, BEA estimates the share of entitlement program transfers in US personal income nearly tripled between 1985 and 2015. Figures 7 and 8 detail one aspect of that change: the rise in the average share of personal income derived from government transfer benefits around the country over a 40-year period. These graphics were commissioned by the *New York Times* in conjunction with a major article on the prevalence of entitlement dependency in middle-class America,[10] and they present even more detail in the interactive online version.[11]

According to this work, relying on data from the Bureau of Economic Analysis (BEA) and the Census Bureau, the share of government transfer benefits in overall personal income for the nation as a whole rose from under 8 percent to almost 18 percent in the four decades between 1969 and 2009. (To be sure—2009 was an unusually bad year for the American economy, and that ratio was very slightly lower for 2015—but the long-term trend, decade by decade, was unmistakably upward.)

By 2010, the populations of many US counties were deriving more than 40 percent of personal income from government transfers to individuals and related entitlement benefits. But interestingly enough, in 2010 the most extreme county-level dependence on government transfers tended to be in rural areas rather than urban ones, and in red states rather than blue

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http://www.bea.gov/iTable/iTable.cfm?reqid=70&step=1&isuri=1&acrdn=6#reqid=70&step=30&isuri=1&7022=7&7023=0&7024=non-industry&7033=-1&7025=0&7026=00000&7027=2014&7001=47&7028=-1&7031=0&7040=-1&7083=levels&7029=7&7090=70. Note that BEA estimates are on a calendar year basis unlike US government budget estimates, which are for October 1–September 30 fiscal years. Note also that at this writing, 2014 is the most recent calendar year for which BEA has reported a detailed breakdown on government entitlement transfers to individuals.

[10] Binyamin Appelbaum and Robert Gebeloff, "Even Critics of Safety Net Increasingly Depend on It," *New York Times*, February 11, 2012, http://www.nytimes.com/2012/02/12/us/even-critics-of-safety-net-increasingly-depend-on-it.html.

[11] Jeremy White et al., "The Geography of Government Benefits," *New York Times*, February 11, 2012, http://www.nytimes.com/interactive/2012/02/12/us/entitlement-map.html.

states. According to the estimates by the aforementioned *New York Times* team, in fact, two-thirds of the 100 most dependent counties in America broke for the Republican rather than the Democratic candidate in the 2008 presidential election.[12] Thus we can see another particularity of daily life in many reaches of entitlement America: to wit, the methodical arrangement of personal affairs to draw growing support from public transfers by many of the very people who are unselfconsciously professing to prefer a smaller American government.

No less remarkable than the rising share of entitlements in US personal income is the dramatic change in the ratio of such transfers to overall personal consumption expenditures—the basket of goods and services that comprises the US living standard. In 1965, entitlement transfers were equivalent to about a thirteenth of all personal consumption in America; by 2015, it was up over a fifth of all personal consumption. [See Figure 9]

The explosive growth of entitlement outlays, as it happens, was accompanied by a corresponding surge in the numbers of Americans who would routinely apply for, and accept, such government benefits. Despite episodic attempts to limit the growth of the welfare state or occasional assurances from Washington that "the era of big government is over," the pool of entitlement beneficiaries has apparently grown almost ceaselessly. The qualifier "apparently" is necessary because, curiously enough, the government did not actually begin systematically tracking the demographics of America's "program participation" until a generation ago. Such data as are available, however, depict nothing less than a sea change over the past 30 years.

By 2012, the most recent year for such published figures at this writing,[13] Census Bureau estimates from the SIPP survey (Survey of Income and Program Participation) indicated that more than 150 million Americans, or a little more than 49 percent of the population, lived in households that received at least one entitlement benefit. [See Table 1] Since under-reporting of government transfers is characteristic for survey respondents, and since administrative records suggest the Census Bureau's own adjustments and corrections do not completely compensate for the under-reporting problem, this likely means that America has already passed the symbolic threshold where a majority of the population is asking for, and accepting, welfare-state transfers.

Between 1983 and 2012, by Census Bureau estimates, the percentage of Americans "participating" in entitlement programs jumped by nearly 20 percentage points: from just under 30 percent to just under 50 percent. One might at first assume that the upsurge was largely due to the graying of the population and the consequent increase in the number of beneficiaries of Social Security and Medicare, entitlement programs designed to help the elderly. But that is not the case. Over the period in question, the share of Americans receiving Social Security payments increased by less than 3 percentage points—and by less than four points for those availing

[12] Appelbaum and Gebeloff, "Even Critics of Safety Net Increasingly Depend on It."
[13] SIPP provides the longest single time series from which to track changes in the proportion of the US population receiving entitlement benefits (in the parlance of SIPP "participating in programs"). The most recently published data from SIPP are from the year 2012. Unpublished data from the year 2013 can also be accessed. A new SIPP wave commenced in 2014 but its results are not yet available. See US Census Bureau, "SIPP Introduction and History," http://www.census.gov/programs-surveys/sipp/about/sipp-introduction-history.html. Data on the proportion of the US population receiving means-tested benefits can be drawn from the Census Bureau's Annual Social and Economic Supplement (ASEC) for its Current Population Survey (CPS), but the most recent available figures here are for 2014, and these numbers may not be entirely comparable with the SIPP results.

themselves of Medicare. Less than one-fifth of that 20-percentage-point jump can be attributed to increased reliance on these two "old age" programs.

Overwhelmingly, the growth in claimants of entitlement benefits has stemmed from an extraordinary rise in "means-tested" entitlements. (These entitlements are often called "antipoverty programs," since the criterion for eligibility is an income below some designated multiple of the officially calculated poverty threshold.) By late 2012, more than 109 million Americans lived in households that obtained one or more such benefits—over twice as many as received Social Security or Medicare. The population of what we might call "means-tested America" was more than two-and-a-half times as large in 2012 as it had been in 1983. Over those intervening years, there was population growth to be sure, but not enough to explain the huge increase in the share of the population receiving antipoverty benefits. The total US population grew by almost 83 million, while the number of people accepting means-tested benefits rose by 67 million—an astonishing trajectory, implying a growth of the means-tested population of 80 persons for each 100-person increase in national population over that interval. The fraction of the American public in homes accepting at least one means-tested benefit, by these SIPP numbers, rose from about 19 percent in 1983 to over 35 percent by 2012.

In the mid-1990s, during the Clinton era, Congress famously passed legislation to rein in one notorious entitlement program: Aid for Families with Dependent Children (AFDC). Established under a different name as part of the 1935 Social Security Act, AFDC was a Social Security program portal originally intended to support the orphaned children of deceased workers; it was subsequently diverted to supporting children from broken homes and eventually the children of unwed mothers. By the 1980s, the great majority of children born to never-married mothers were AFDC recipients, and almost half of AFDC recipients were the children of never-married mothers. The program's design seemed to create incentives against marriage and against work, and it was ultimately determined by bipartisan political consensus that such an arrangement must not continue. So with the welfare reforms of the 1990s, AFDC was changed to Temporary Aid to Needy Families (TANF), and eligibility for benefits was indeed restricted. By 2012, the fraction of Americans in homes obtaining AFDC/TANF aid was less than half of what it had been in 1983.

The story of AFDC/TANF, however, is a one-off, a major exception to the general trend. Over the same three decades, the rolls of claimants receiving food stamps—a program that was officially rebranded the Supplemental Nutrition Assistance Program (SNAP) in 2008 because of the stigma the phrase had acquired—jumped from 19 million to 51 million. By 2012 almost one American in six lived in a home enrolled in the SNAP program. The ranks of Medicaid, the means-tested national health care program, increased by over 65 million between 1983 and 2012 and now include over one in four Americans. And while the door to means-tested cash benefits from the Social Security program through AFDC/TANF had been partly (though not entirely) closed, a much larger window for such benefits was simultaneously thrown open in the form of Supplemental Security Income (SSI), a program intended to provide income for the disabled poor. Between 1983 and 2012, the number of Americans in households receiving federal SSI more than sextupled; by 2012, over 20 million people were counted as dependents of the program.

All told, more than 35 percent of Americans were taking home at least some benefits from means-tested programs by 2012—nearly twice the share in 1983. Some may be tempted to blame such an increase on increasingly widespread material hardship. It is true that the American

economy in 2012 was still recovering from the huge global crash of 2008, and unemployment levels were still painfully high: 8.1 percent for the year as a whole. But 1983 was a recovery year for the US economy, too; the recession of 1981 and 1982 was the most severe in postwar American history up to that point, and the unemployment rate in 1983 was 9.6 percent, even higher than in 2012.

By the same token, although the official poverty rate was almost identical for the two years—the total population estimated to be below the official poverty line was 15.2 percent in 1983 and 15.0 percent in 2012—the proportion of Americans drawing means-tested benefits was dramatically higher in 2012. By 2012, there was no longer any readily observable correspondence between the officially designated condition of poverty and the recipience of antipoverty entitlements. In that year, the number of people taking home means-tested benefits was more than twice the number of those living below the poverty line—meaning a decisive majority of recipients of such aid were the non-poor. In fact, by 2012 roughly one in four Americans above the poverty line was receiving at least one means-tested benefit.

How could this be? America today is almost certainly the richest society in history, anywhere at any time. And it is certainly more prosperous and productive now (and in 2012) than it was three decades ago. Yet paradoxically, our entitlement state behaves as if Americans have never been more "needy." The paradox is easily explained: means-tested entitlement transfers are no longer an instrument strictly for addressing absolute poverty, but instead a device for a more general redistribution of resources. This is why there is no obvious correspondence over time between the percentage of America obtaining government means-tested benefits on the one hand, and either the official "poverty rate" or the national unemployment rate on the other. The latter fluctuate in accordance with the business cycle; the former rises almost steadily from one decade to the next. [See Figures 10 and 11]

The Male Flight from Work in the Entitlement Society

We may point now to a first of several apparently unintended consequences from the rise of the entitlement state worth briefly mentioning in this prepared statement. Put simply: the arrival of the entitlement society in America has coincided with a historically unprecedented exit from gainful work by adult men.

Figure 12 frames the dynamic. It outlines trends in the labor force participation rate—the ratio of persons working or seeking work in relation to the total reference population. [See Figure 12] From 1948 to 2015, overall labor force participation rate for American adults 20 and over rose—from about 59 percent to about 65 percent: this despite the 2008 crash.[14] But this arithmetic average is the confluence—really, a convergence—of two very different trends. Since 1948, the US female labor force participation rate has soared: from about 32 percent to almost 60 percent. But over those same years, the male labor force participation rate plummeted: from nearly 89 percent for 1948 to just under 72 percent for 2015 percent. Labor force participation rates for

[14] For the BLS data discussed here, see US Department of Labor, Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," http://data.bls.gov/pdq/querytool.jsp?survey=ln.

men and women are closer today than ever before—not only because of the inflow of women into the workforce, but also because of the withdrawal of men.

Figure 13 helps us understand the phenomenon of the vanishing male worker in contemporary America. [See Figure 13] For American men 20 years of age and older, it depicts both the employment to population ratio and the labor force participation rate. The solid red area represents the "work rate" for men. The blue area represents the unemployed: those in the workforce, seeking employment, but without jobs. And the lightly shaded area above the blue represents those men who are neither working nor seeking work.

As may be seen, a terrible surge in unemployment commenced in 2008, with the paroxysms of the Great Recession. At its widest level in postwar history, i.e., in the year 2010, that gap amounted to 6.5 percent of the total male 20+ population. On the other hand, in the 60 years between 1948 and 2008—that is to say, before the subsequent crash, the male labor force participation rate fell by nearly 13 percentage points. In other words, male employment levels today have been depressed twice as much by the drop in the share of men seeking work as by the lack of work in the depths of the Great Recession for those seeking jobs. Between 1948 and 2015, the proportion of adult men who did not consider themselves part of the workforce has steadily risen: from under 12 percent then to over 28 percent now. That nearly 17 percentage point increase in the percentage of adult men neither working nor looking for work compares with the 3.6 percent of men of those same ages who in 2015 were out of work but looking for a job.

The decline in male labor force participation rates since the end of World War II, admittedly, do reflect in part the aging of American society. But that particular aspect of the overarching postwar male flight from work should not be overstated. In 1965, just 3.3 percent of civilian non-institutionalized American men between the ages of 25 and 54 did not count themselves as part of the country's workforce. Fifty years later, the corresponding share was over three times as high—11.7 percent

Americans still tend to regard themselves as a distinctively hardworking people, and in important respects hard facts do bear this out. Americans with jobs work much longer nowadays than their continental European counterparts: by the reckoning of Harvard's Alberto Alesina and his colleagues, in the early years of the 2000s, employed Americans were working an average of over 1,800 hours per year—20 to 25 percent longer than the average German or French worker, 35 percent longer than the average for Sweden, and almost 50 percent longer than counterparts in the Netherlands.[15] (Though Alesena et al. were examining the pre–2008 crash era, the pattern still holds today.) But these are averages for people actually at work. Paradoxically, labor force participation ratios for men in the prime of life are demonstrably *lower* in America than in Europe today.

The paradox is highlighted in Figure 14, which contrasts labor force participation rates for men in their late 30s in America and Greece. [See Figure 14] In America, as in most modern societies, men in their late 30s are the demographic with the very highest rates of labor force participation. And Greece, given its ongoing public debt and financial travails, may at the moment be a sort of

[15] Alberto F. Alesina, Edward L. Glaeser, and Bruce Sacerdote, "Work and Leisure in the U.S. and Europe: Why So Different?," in *NBER Macroeconomic Annual 2005*, eds. Mark Gertler and Kenneth Rogoff (MIT Press, 2006), Table 2, http://www.nber.org/chapters/c0073.pdf.

poster child for the over-bloated, unsustainable European welfare state (and not just by some on this side of the Atlantic). Be all that as it may, the fact is that a decidedly smaller share of men in their late 30s have apparently opted out of the workforce in Greece than in the United States of America. By 2003—well before the Great Recession—over 7 percent of American men in this age group were outside the workforce, as against fewer than 3 percent in Greece. Since then, that gap has only grown—in other words, the "flight from work" has evidently been even more pronounced in America than in Greece.

Nor is Greece an anomalous representative of European work patterns in this regard. Quite the contrary: according to the OECD's labor force statistics database, as of 2014 American men of prime working age (25–54) had lower labor force participation rates than all but one Western European state (Italy).[16] Europeans may take a great many holidays and vacations to the American eye—but the fact of the matter is that American men near the height of their powers are much more likely than their European brethren to go on *permanent* vacation.

Correlation is never causation—the fact that the great postwar decline in male work rates and labor force participation rates coincided with the mass exodus of adult men from jobs and work does not prove the later caused the former. What is indisputable, however, is that the latter helped to finance and facilitate the former.

The Rise of Disability Among Working-Age Americans in the Entitlement Society

In 1965, an average of just under one million erstwhile workers was receiving monthly federal payments for disability. On the eve of 2015 (December 2014), that total had skyrocketed to almost 9 million.[17] Thus the number of Americans collecting government disability payments from that particular program soared nine-fold over the 50 years between 1965 and 2015, and the ratio of former workers who were recipients of government disability payments to members of the economically active population ages 18 to 64 quadrupled over those years. In 1965 there were over 70 men and women in those age groups working or seeking employment for every person on SSDI disability; by 2013, the ratio was down to 16 to 1 and continuing to decrease. The ratios are even starker when it comes to paid work: in 1965, roughly 66 Americans were engaged in nonfarm employment for every officially disabled worker—but by 2015, there were just 15.

America's dramatic long-term rise in the proportion of working-age men and women designated as possessing entitlement-worthy disabilities is all the more remarkable when one bears in mind the tremendous improvements in public health between 1965 and 2015. Between 1965 and 2013 (the most recent such data available), according to the reckoning of the Human Mortality Database, overall life expectancy at birth in the United States increased by nearly nine years, and life expectancy at age 18 jumped by seven years (from 54.6 to 61.7). Over that same period, the odds of dying between one's 18th and 65th birthday fell markedly: from 24.3 percent to 13.9

[16] Organisation for Economic Co-operation and Development, "LFS by Sex and Age — Indicators," accessed June 30, 2016, https://stats.oecd.org/Index.aspx?DataSetCode=LFS_SEXAGE_I_R.
[17] Social Security Administration, "Annual Statistical Report on the Social Security Disability Insurance Program, 2014," November 2015, Table 1, https://www.ssa.gov/policy/docs/statcomps/di_asr/.

percent, or by well over two-fifths.[18] [See Figure 15] Furthermore, the automation of work and the rise of the service/information economy over those same decades made the daily routines of Americans ever less physically demanding. Wherefore then the four-fold rise in the proportion of working-age Americans on government-paid disability over the past half century?

Note that SSDI is only one of the government's disability entitlement programs today. SSI is another; there are also disability benefits available from the Veterans Administration and elsewhere. The US government apparently cannot provide data on the total number of working-age beneficiaries from its manifold disability entitlement programs. Nor are these programs regularly audited. Suffice it to say that in our effort to provide for the truly needy—for those who truly cannot work—our disability entitlement programs have also provided temptations for others to game the system. Absent rigorous audit, we cannot know how great those temptations have proved to be.

Deficit Finance of Middle Class Transfer Programs in the Entitlement Society

The American public has become increasingly broadminded about the propriety of tapping new sources of finance for supporting their appetite for more, immediate entitlements. Thus America seems to be gravitating toward taking entitlement-directed resources from a pool of citizens who can offer no resistance to such schemes: the unborn descendants of today's entitlement-seeking population.

As much may be seen in Figure 16, which contraposes government outlays for Social Security and Medicare against the federal budget deficit over the past four decades. [See Figure 16] There is an irregular but all too steady correspondence between those two quantities over the years in question. The federal deficit is an arithmetic difference between receipts and expenditures, and thus not program-specific. Yet to judge only by its performance specifics, one might be tempted to say that the purpose of the federal deficit in recent decades has in effect been to fund our "pay-as-you-go" entitlement programs. And although in theory there are "trust funds" for both Social Security and Medicare, the none-too-secret reality is that both of these programs have vast unfunded future liabilities today: on their current trajectories, the pressures for de facto deficit finance of the annual outlays for the recipients of these "middle-class entitlements" could increase appreciably in years to come.

To be clear: there are a number of perfectly good reasons for free peoples to run government deficits and thus contract public debt: these include providing for response to dire national emergencies or perhaps underwriting investment projects in potentially productive infrastructure. The wholesale financing of current public consumption through the device of obliging unborn Americans to cover those costs (plus interest), however, has not previously been characteristic of our democratic governance.[19] Irrespective of the economic implications of this

[18] The Human Mortality Database, "The United States of America, Life Tables," University of California, Berkeley and Max Planck Institute for Demographic Research, retrieved 26 July 26, 2012, http://www.mortality.org/hmd/USA/STATS/bltper_1x1.txt.
[19] A point made with both nuance and force in Christopher DeMuth, "Debt and Democracy," Legatum Institute, May 12, 2012, http://www.hudson.org/files/publications/debt_and_democracy_legatum.pdf.

insidious innovation, this new approach to entitlements necessarily means we will be leaving a very different heritage of mores to our legatees from that we inherited from our forebears.

Crowding Out Defense and National Security in the Entitlement Society

Unlike entitlement payments, which are nowhere mentioned in the Constitution, the US Constitution expressly establishes national security, and the maintenance of the armed forces to provide for "our common defense," as a prime responsibility for the American state. Recall that the president's first (and thus foremost) enumerated power under the Constitution is in his role as commander in chief (Article II Section 2).

A healthy measure of informed public skepticism toward any and all proposed military expenditures is not only suitable, but essential for open democratic societies. A free people, after all, will jealously guard against impingements upon their liberties—including those arising from excessive, wasteful, or unwise outlays in the name of national defense.

But the days in which the "national security state" arrogated more public resources than the welfare state are long past. US government outlays on entitlements do not merely exceed those for defense nowadays: they completely overshadow defense outlays.

In 1961, the year of Eisenhower's "military-industrial complex" admonition, America was devoting close to two dollars on defense for every dollar it provided in domestic entitlement payments.[20] Up to that point, defense expenditures had routinely exceeded any and all allocations for social insurance and social welfare throughout American history.[21] But in 1961 a geometric growth of entitlement payments was just commencing. Thanks to the unrelenting force of that spending surge, government transfer payments to individuals would surpass defense spending in just a decade—in 1971, in the midst of the Vietnam War. And for the following 40-plus years, entitlements have continued to surpass defense expenditures, and by progressively widening margins. By the year 2010, America was spending well over three times as much on transfer payments as on its entire national security budget—notwithstanding active overseas military campaigns in both Iraq and Afghanistan at that time. [See Figure 17]

America's ramp-up of military outlays in the years since the 9/11 attacks is well-known. Much less widely known is the fact that this massive upsurge in military spending was more or less eclipsed by the enormous increase in spending on domestic entitlements over those same years. Between FY 2001 and FY 2010, the share of GDP allocated to defense increase by 1.9 percentage points. Over that same period the share devoted to entitlement programs increased by 5.4 percentage points—or almost three times as much. The magnitude of the upsurge in military spending over those years was widely discussed over those same years, and often decried as being

[20] $49.6 billion vs. $29.5 billion (in current dollars). Defense spending from US White House Office of Management and Budget, "Historical Tables, Table 3.1: Outlays by Superfunction and Function, 1960-2017," http://www.whitehouse.gov/omb/budget/Historicals. Government transfers to individuals from Bureau of Economic Analysis, "Personal Current Transfer Receipts," =http://www.bea.gov/iTable/iTableHtml.cfm?reqid=70&step=30&isuri=1&7028=-1&7040=-1&7083=Levels&7031=0&7022=7&7023=0&7024=Non-Industry&7025=0&7026=00000&7027=-1&7001=47&7029=7&7090=70&7033=-1.

[21] There had been exceptions to this generalization—pension payments for veterans exceeded defense budgets in the period after the Civil War, for instance—but they were just that: exceptions.

"unaffordable." Curiously, considering the magnitude of the quantities involved, the great simultaneous leap in entitlement spending did not seem to attract similar critical public attention.

But why, exactly, should America's military commitments have been regarded by so many as "unaffordable" then—or for that matter, now?

In FY 2010, the national defense budget amounted to 5 percent of current GDP. As a fraction of US national output, our "military burden" was thus lower in 2010 than in almost any year during the four-plus decades of the Cold War era. In FY 1961—the year of Eisenhower's "military-industrial complex" address—the ratio of defense spending to GDP was 9.6 percent[22]: in other words, almost twice as high as in FY 2010. Put another way: America's overall "military burden" was nearly twice as high in 1961 as in 2010.

Americans may have deemed our defense commitments in 2010 to be ill-advised, poorly purchased, or otherwise of questionable provenance—but as a pure question of "affordability," the US is in a better position to "afford" our current defense burden than at virtually any time during the Cold War era. By FY 2015 our military burden was 3.6 percent of GDP—near historic postwar lows—while federal spending for entitlement programs equaled 14.9 percent of GDP. For every dollar for defense and national security, the US government is currently providing over four dollars for entitlement programs.

Here apparently is another unintended consequence of the entitlement state: given the insatiable appetite for further transfers and benefits, broad political coalitions predictably agitate for increases in social welfare spending at the expense of defense spending—no matter how high the former or low the latter. (The welfare states in modern Europe may be seen as harbingers in this regard.)

Concluding Comments

The worldwide spread and growth of the social-welfare state seem strongly to suggest that there is a universal demand today for such services and guarantees in affluent, democratic societies. Given the disproportionate growth almost everywhere of entitlements in relation to increases in national income, it would seem that voters in modern democracies the world over regard such benefits as "luxury goods." In one sense, we might therefore say there is nothing particularly special about the recent American experience with the entitlement state. But there may be reason to think that the entitlement state is especially poorly suited for a nation with America's particular political culture, sensibilities, and tradition.

To date the American voter's appetite for entitlement transfers appears to be scarcely less insatiable than those of voters anywhere else. Our political leadership, for its part, has no stomach for taking the lead in weaning the nation from entitlement dependence. Despite tactical, rhetorical opposition to further expansion of the entitlement state by many voices in Washington, and firm resistance by an honorable and principled few, collusive bipartisan

[22] US White House Office of Management and Budget, "Historical Tables, Table 3.1."

support for an ever-larger welfare state is the central fact of politics in our nation's capital today, as it has been for decades.

Until and unless some sort of forcing financial crisis suddenly restricts the resources available to it, continued growth of the entitlement state looks very likely in the years immediately ahead—and at this writing I myself can see no such forcing crisis on the horizon. If that prognosis is correct, we may expect the inadvertent consequences of the rise of our entitlement state to become still more acute in coming years.

Mr. KING. Thank you, Mr. Eberstadt, for your testimony, and all the witnesses. I now recognize myself for 5 minutes. And I would turn first to you, Mr. Eberstadt, and ask if you could expand a little bit on a point that is in your written testimony regarding male flight from work. What is this social dynamic that is brought about, I think by your assertion at least, because of the entitlement programs?

Mr. EBERSTADT. Well, for over the postwar period, from 1948, when we started to collect detailed monthly employment statistics, to the present, we have seen a dramatic decrease in the proportion of prime age males—that is the Labor Department's designation of men 25 to 54 years of age—who are either working or unemployed and seeking work, which is to say, in the labor force.

We have seen a growing proportion of men who are neither working, nor looking for work. Most recent estimates by the Labor Department are that almost 12 percent of men in this prime group are neither working nor looking for work. When I was a kid, back in 1965, the corresponding figure was about 3 percent, about a quarter of that.

Exactly why there has been this tremendous flight from work is I think a very important and complex question. But certainly this has coincided with the rise of various entitlement availability programs. That does not prove causation. Correlation does not prove causation. But certainly the rise of these programs has helped to facilitate and to finance this exit from the labor force.

Mr. KING. Mr. Eberstadt, would you agree that it looks like there is an incentive in the entitlement programs, though, that discourage work, and that is a component in the data that you have seen?

Mr. EBERSTADT. This is one of the unintended consequences of social policy to which I mentioned, yes.

Mr. KING. I want to pose a question off of that. And that is, and I have watched different places around the world as, it looks like a group of people loses its work ethic over time. And some of it has to do with the welfare programs, some of it is just loss of opportunity, subtle and not producing in the economy. Can you think of any examples where that work ethic that has been intergenerationally diminished has been reconstituted again back to the former work ethic?

Mr. EBERSTADT. I think this has happened historically on a number of occasions. If we look at the history of Victorian England, for example, I think we saw a reinvigoration of work ethic at various points and times. It has usually been associated in other societies, like in England or Britain, with a religious revival. I do not think that government is a very effective instrument for engineering religious revivals, and I hope government does not try to do that.

Mr. KING. So probably the Protestant work ethic would be some of that, and I recognize that. For now, I think you, and I turn to Mr. Steuerle. And one of the things that you mentioned was that we have never been so rich. I would assert we are the richest country in the history of the world, and yet we cannot sustain ourselves in real time, even when we are not in a national security crisis mode. Can you enlighten us as to what happens if we continue down this path? Where is the cliff, and what does it look like?

Mr. STEUERLE. I am not sure where the cliff is. I do know that the increasing debt that we have as an economy decreases our ability to react to different issues. I mentioned in my testimony and elsewhere that our ability to react to the next recession, or the next emergency, is much less. Even if we do not actually fall off the cliff, we are still very tentative in doing other things.

I would also point out, and I pointed this out through all sorts of examples—I can give you more—the extraordinary extent to which the growth in government is scheduled for things that, generally speaking, I do not think either party thinks is best.

So it may be Republicans do not want to have so much growth, and it may be Democrats would rather the growth go toward children, but the compromise is not there. I mentioned we are spending nothing additional on children, on programs for what I call human and social capital development. We are not spending wisely. And I think all of this is really a budget for a declining economy.

Mr. KING. Thank you, and then, Mr. Lilly, in your vision into the future, if we continue down this path with this debt load we have, or we adjust it with tax increases to make some accommodations to that, is there a limit to what we can sustain? Can we always raise taxes to get it back to I think something resembling balance? Or is there a cliff for us? Is our borrowing capacity getting limited, and if so is it a percentage of GDP? How do you envision this thing getting out of hand, because I know you are concerned about it?

Mr. LILLY. I mean, we are at 85 percent or 80 percent of—our debt is 80 to 85 percent of GDP. I think that is way too high. I want to see a fiscal policy that brings that debt back down to below 50 percent. In 1974, we were at 24 percent. I mean, that is a reasonable goal.

We have an unusual situation because of demography and the huge number of people that were born after World War II. And I think we have to recognize that, and we have to recognize that we are going to have to raise more taxes in order to pay for it. But that still leaves us at the very low end of industrialized countries in terms of taxes. There are countries that have been growing much faster than we have, that have tax as a percentage of GDP that is nearly twice the level that we have.

Mr. KING. Would putting a much higher percentage of our people to work, would be part of your solution?

Mr. LILLY. Absolutely, absolutely. I would like to say, though, if I could, I think it is a great disservice to say that welfare payments to working-age men has anything to do with this entitlement program. That is a tiny, tiny share of entitlement spending.

Mr. KING. We will give you the last word on that, Mr. Lilly. And now I yield back the balance of my time, and recognize the gentleman from Tennessee, the Ranking Member, for his questioning.

Mr. COHEN. Thank you, Mr. King. I find this terribly disturbing that we are even talking about it. And I appreciate, Mr. Steuerle, your statement—you understood and made clear that it is both incomes as well as spending, and it could go either way. You are interested in a neutral area.

So you agree that if we raise the cap on Social Security, which is 1,185, and raise it considerably, we could bring revenues that

would take care of this problem or take care of it to some extent. Is that not correct?

Mr. STEUERLE. I have to give sort of a qualified answer. Yes, as part of a compromise, I would actually agree to an increase in this cap, partly because it has been lowered through—has not kept up with real growth in wages. However, I have real concern with raising taxes to put more money into these programs, mainly for people like me. I cannot go into all the details——

Mr. COHEN. No, it is not for people like you, particularly. When you come to the understanding that African-Americans age 65 and older got 90 percent of their income from Social Security, that 46 percent of African-Americans got 90 percent of their income, and think about who they are. You start drawing Social Security when you are 66.

That means that people get into Social Security who were born in 1950, and give or take let us say people live to be 90. There is outgrowth, but you are talking 1950 back to 1926. Think about all those people in the South, African-Americans, born between 1926 and 1950. What chance do they have to get enough money to take care of themselves without Social Security? They had no chance.

Mr. STEUERLE. Part of my Social Security compromise is actually to raise benefits for these people. But the average person retiring on Social Security now retires for 12 more years than he or she did in 1940. That does have an implication for the issue that Mr. King raised about the percent of the population that works. But I agree with you, I would spend more money on those particular people on Social Security, but as part of a compromise. It does not mean I still would not try to get this system into balance.

Mr. COHEN. Yeah, well, you cannot balance things on people born between 1926 and 1950. Particularly in the South, and it was not that much better in the North. Opportunity was not there for African-Americans. Opportunity was not there for White people in Appalachia, either. People have not had opportunity, and this has been a society of haves and have-nots for a long time. It has just gotten to be more haves, or wealthier haves. The Trumps, and all that multi-billionaire world. Yeah, they want things cut, and they do not want to pay on the 1,185 and more. But you got so many people out here, they cannot deal with it.

Mr. , you talk about it great in the ivory tower. What would you do about somebody that is born in the South, an African-American in 1940? What chance do they have to have enough funds? Were they deprived of some religious valuation that made them not want to work? Or could they not work because their government worked against them, and allowed discrimination and Jim Crow laws, that put them in the back of the line, and did not give them jobs? What would you do for those people?

Mr. EBERSTADT. I was born in 1955, sir, I did not have any——

Mr. COHEN. You do not look African-American, you do not look like the South. You did not have Jim Crow, you did not have barriers put before you from the time you were born. And these are the people you are trying to cut. What opportunities do they have? Speechless. Mr. Lilly, tell me——

Mr. EBERSTADT. Sir, I am not speechless. Were you——

Mr. COHEN. What would this Social Security cap be if it kept up with inflation? Do you have any idea?

Mr. LILLY. I think it has been adjusted, you know, relatively rapidly to deal with inflation. I do not think it is that much out of line with that.

Mr. COHEN. It is 1185 in 2016, right?

Mr. LILLY. Yeah, and it was——

Mr. COHEN. 117 before that?

Mr. LILLY. Yeah. But less than 10 years ago, it was below 100. So it has gone up at pretty close to the rate of inflation, and it may even be indexed, I think.

Mr. EBERSTADT. The percent of wages subject to the cap has been lowered mainly because of the increasing inequality in wages in the economy, and also because there are certain self-employed people who are excluded from the tax. However, Mr. Lilly is right, it has kept up with inflation.

Mr. COHEN. Well, it might not have been set at the right place when it started, so it may be the wrong criteria to look at to see whether——

Mr. LILLY. What I would say is the problem with respect to Social Security is relatively small. And there are reasonably small adjustments that could be made to take Social Security and make it solvent over a period of time at current benefit levels. The real problem is Medicare. And as I tried to point out in my testimony, it is not just your Medicare check, but how much you have to pay in out-of-pocket expenses. And if your out-of-pocket expenses eat up most of your Medicare, you do not have enough to stay alive on. And that is the problem we face.

And there is no reason that we cannot raise the general revenues to pay for Medicare. That is the way we pay for them now, and we could pay for more of it if we would simply make the tax adjustment, and avoid some, as you point out, terribly painful choices that we would have as a society.

Mr. COHEN. Thank you.

Mr. KING. The gentleman from Tennessee yields back. The Chair now recognizes the gentleman from Idaho, Mr. Labrador.

Mr. LABRADOR. Thank you, Mr. Chairman. And, Mr. Eberstadt, I had a couple of comments, but before I say anything, did you want to respond to that question that was just asked to you, that they were trying to put you in a situation that I thought was a little bit unfair?

Mr. EBERSTADT. Thank you very much for giving me an opportunity, and I will try to answer your question. Of course we have a long history of racial discrimination. It goes back to President Obama's description of original sin in the United States. It is our original sin.

There is no way to rewind history, as I tried to indicate. What we can do is we can try to have a social safety net that deals efficiently and in a targeted way with the people who have the greatest need in our society. I think that is part of what Mr. Steuerle was trying to say as well.

As for the greater question of whether the benefits which I was mainly talking about, the means-tested benefits, have an effect upon the quality of citizenship, and also upon the likelihood of peo-

ple's participation in the economy in the future in growing wealth, I think that is something that we also have to keep a careful eye on, because there are unintended consequences in all social policies.

Mr. LABRADOR. Thank you, and there definitely are unintended consequences. In fact, if you look at the areas of the country that are suffering the most from poverty are the places where, for the most part, the people complain the loudest about it are representing them.

So I would be very careful. I would look at the history of what these unintended consequences have been. And you find the largest gaps in wages, you find the largest poverty pockets, in some of these areas where so many people come here and they like to lecture others on how much they care about those people. But really what is happening in those communities is that they are finding themselves further and further in poverty and in need. I am pleased that we are examining here the mandatory spending that is bankrupting this country.

Ever since I first sought election to Congress was to cut back on the gross amount of spending authorized by this body each and every year. In order to sustain the fiscal solvency of this country, we need across-the-board cuts in spending, both mandatory and discretionary. Nothing should be off the table. It strikes me in the past 6 years, I have not truly been given the opportunity to vote against these measures, and not really been given the opportunity to vote against any mandatory spending provisions.

This is not so much executive overreach as it is a bloated bureaucracy that continues to grow fat and spend money while Congress does nothing. I am encouraged by this hearing today, and I look forward to working with other Members on proposals and bills that return the spending authority to Congress to decide more regularly what is appropriate mandatory spending, and what is simply wasteful

Mr. Steuerle, what sections of the Federal budget are the largest contributors to mandatory spending?

Mr. STEUERLE. So, in a lot of my writing I distinguish between mandatory spending without built-in growth rates, and those with built-in growth rates. The ones that have the built-in growth rates are mainly the retirement and the health programs—and by the way, the health programs include the tax subsidy for health as well—and things like the mortgage interest deduction.

So I include the tax subsidies in my examples of those that grow automatically. For instance, people in my generation have about twice the housing, or the value of housing, as my parents' generation. Congress automatically let that subsidy grow or double, without voting that that was the best way to spend the money, when I think we could have done a lot better for low-income people, people who do not have housing. The same thing happens within the retirement and health arena.

Can I just give one statistic that I think might help think about this? Thinking about the future as opposed just to current levels: for a typical couple today, Social Security and Medicare provide lifetime value benefits of about a million dollars. Right now, that is about two-thirds Social Security, about a third Medicare. That

is a million dollars. You might wonder how you get there; it is basically about $50,000 for a couple, average couple, for about 20 years. For a typical couple, they are on these benefits—that is the longer-living of the two for close to 3 decades.

Now, for millennials, that million-dollar figure—and that is the value needed in a savings account, if it is discounted would grow to about $2 million.

Suppose we thought about that growth, that automatic growth from a million to $2 million, and said, "Is this the best way to support millennials?" Well, we add to their student debt, we let their childcare, I am sorry, the child credit decline in value, the tax credit. We do not give them wage support if they are low-income. We do not provide them first-time home buyers' subsidies.

I think there is a lot of ways of transferring this money gradually over time to better provide work incentives, to better provide support that would produce upward mobility, than simply saying that all of the growth in government for you, you millennials, whom we are neglecting already, is going to go to you when you retire. But before then, we are going to forget you.

Mr. LABRADOR. Well thank you, Mr. Chairman, I have run out of time. So I yield back my time.

Mr. KING. The gentleman from Idaho yields back. The Chair will now recognize their Ranking Member of the full Committee, Mr. Conyers.

Mr. CONYERS. Thank you, Chairman King. This has been very interesting. I would like to ask you all about the economic reality of income inequality in America, the wealthiest country on the planet.

And let me start with the senior fellow for the Center for American Progress. But I will come to all of you here. It is my understanding, shocking that one in five children in this country live in poverty, but that on a larger basis of private wealth, the top 1 percent of possessors of private wealth have a greater income than the other 90 percent of the citizens put together. Have you heard of that, mister senior fellow?

Mr. LILLY. Mr. Chairman, I think that is one of the great tragedies in our society today. It is also a problem that we have around the world. I think a lot of the divisiveness in American politics today centers around the fact that people feel disinherited. The working class feels that there is no way out. They do not see a way out for their kids, and guess what, we are finding out it is really bad for business, it is bad for the direction—I think the American Chamber of Commerce is absolutely apoplectic right now at the direction that this country is going.

And I think they have to looking the mirror to some extent and think about why there is this division, why is this extremism showing itself in American politics. A country that does not grow together and does not prosper together is not going to be a strong country, and I think we are beginning to see only the beginning of the downside of this terrible division in the way we are growing.

Mr. CONYERS. And you know, this is not even taking into consideration the rather great improvement in the differences of income inequality because of collective bargaining, which has only recently come into our system in which people—we have such a thing as a minimum wage, and we have some progressives now arguing that

a $15 minimum wage should be the bottom of the income level, which leaves more conservative people that come before the Congress apoplectic, that we would pay somebody a minimum of $15 an hour. Would you begin our discussion on that, Scott Lilly?

Mr. LILLY. Well, you know, I think there are a number of things that you can do to reduce income inequality from a policy side. I would say this topic that we are dealing with right now in terms of Social Security benefits and Medicare and so forth, is a huge factor.

In 1959, 30 percent of elderly people in the United States lived in poverty. Today it is 9 percent, the lowest of any age group. If we were to turn back and put Social Security payments as subject to annual appropriations, we would be headed back to that 30 percent and we would greatly exacerbate what is already a huge problem in this country.

Mr. CONYERS. Why do your two panelists on either side of you not agree with that comment?

Mr. STEUERLE. So I have never advocated putting Social Security on annual appropriations; I have suggested that whether Social Security or anything else, that we need to figure out where we want the growth in government to go. So think out 35 years from now. Even at our low economic growth rate, the economy doubles in size, revenues probably double.

How do we want to spend that money best? I would argue that it is time now to promote the types of things that you are talking about, Mr. Conyers—which is on the opportunity front—to touch the things that I think Mr. King is also talking about—which is promoting more earnings and promoting more labor supply, and trying to figure out how we could allocate it.

My calculations are that in the direct support budget—that is, take out the public goods—we spend about $35,000 a household right now. Suppose in another 35 years that doubles to $70,000. Now maybe it takes 40 years to get there with Republicans, and maybe it takes 30 years to get there with Democrats. It is still growing, as long as we can promote economic growth.

I want to think about how we can really allocate that growth best to the things that promote mobility, earnings growth, wealth—and wealth inequality, by the way, is much worse than income inequality. But I do not think our current social programs are doing a good job of getting us there. And even if you disagree with that statement, I think we can all agree they could do a better job.

Mr. CONYERS. Thank you so much. Could I just ask if our other panelist, Mr. Eberstadt, did you have a view different from the—well there are two different views. Where do you come down on this discussion?

Mr. EBERSTADT. I think Mr. Lilly is absolutely right in emphasizing the importance and the future of unfunded liabilities for the healthcare programs. I think Mr. Steuerle is exactly right in emphasizing the importance of more rapid economic growth. If we have more rapid economic growth, we have got more options for everything. In terms of the question of the poverty rate, this may be a little bit arcane for our current discussion, but I think that the poverty rate is actually a very poor measure of poverty in the

United States because it looks—in my view, it looks at the wrong end of the telescope.

We should be looking at people's purchasing power and people's spending power. And if we did that, poor people would still be poor, but they are not going to be rich. But we would have a much better understanding of how to target our resources to the truly needy.

Mr. CONYERS. Well, I thank you all for your interest. This is a conversation that, Chairman King, we could have another hearing on. And I congratulate you on picking this subject to bring these three experts before us on.

Mr. KING. Thank you, Mr. Conyers, for your engagement. And the gentleman from Michigan has yielded back the balance of his time. Chair will now recognize the other gentleman from Michigan, Mr. Bishop.

Mr. BISHOP. Thank you Mr. Chair, and thank you for this hearing; I think it is a fantastic opportunity to discuss an issue that is so very important to this country and the citizens of this country and really one of the reasons—primary reasons why I decided to run for Congress was to address this issue, and not just for me, but for future generations.

I have got three young kids, and it occurs to me that if someone does not step in very quickly, this will get out of control. And my dad used to tell my sisters and me that if we ever found ourself in a hole, the first thing you do is stop digging. And this country, this government, at so many levels, has not done that one essential thing, stop digging.

We continue to dig ourself in deeper. It is not rocket science, we just spend more than we have, and we continue to bury ourself in big government and programs that have failed over the years. And I think there is an institutional reflex to go to back to exactly where we started and to build from there, and we have not reassessed our priorities over the years. And I think that, coming from state government a few years back when I served there, I think state government is a great incubator for ideas on this subject.

And, for example, the State of Michigan was in a financial death spiral. We were being steered right into the ground. I read the title of the hearing today, "The Federal Government is on Autopilot," that is exactly what was happening in Michigan and it was being driven right into the ground.

And changes had to be made, and were made. And about 2010, a completely new group of leaders came in with a new idea and a mandate to get things done, and Michigan has really turned around, in every category, because of that leadership. And you look at the other Midwest States, like Ohio, Indiana, Wisconsin, all have made dramatic turnarounds because of decisions that were made—tough decisions to address really difficult structural problems with the State. And then you look at Illinois, that has not made the decisions at all, and they continue to drive themself into the ground.

So I raise this as a bigger issue. Government continues to grow at just phenomenal rates because we have not been able to do the very thing that we are sent here to do, which is to control our spending and get this place under control. I worry about my kids, and I worry about the future of this country because of that very

reason. I wonder, Mr. Eberstadt, can you tell me anything—are there reforms that we can implement or consider that would restore the role of Congress, and rationally matching programs with the ability to pay for them?

Mr. EBERSTADT. Sir, I think that is a pretty big order. I think that is a pretty tall order. We have had two generations of very, very strong momentum in developing the Federal Government as an entitlements engine. And it did not happen by accident; it happened because there is a great demand for this on the part of voters in both parties. It is bipartisan.

I guess I would think that maybe the impetus for real change has to come from the grassroots. I think it has to come from the voters. As long as voters say we would like to limit everybody's entitlements but our own, have a collective failure here.

Mr. BISHOP. That is a good point, and one that I was trying to make earlier with regard to the states, because that grassroots momentum started in Michigan, my home State, and that is really what turned things around, and really was the mandate for members of government to go back and do the right thing. Mr. Steuerle, if government stays on this path, can you reflect on what this means for my kids, for millennials?

Mr. STEUERLE. I already gave the example of what we promised for millennials, which is a hard time until they retire, and then they retire. Now that path is, by the way, not sustainable, but that is what currently scheduled in the budget, that is, to say, where we are providing all the growth in government. Now scheduled for about $12,000 more per household, nothing goes for children, and there is actually not very much for working families either.

I keep trying to emphasize in my testimony that I am really trying to figure out a way to get through what I consider sometimes called a classic prisoner's dilemma between the two parties, where if either one leads too much by themselves, they lose. And they lose because we the voters punish them. Because you are in a position now where you are actually required with the budget so out of balance, to take things back for the public. Either to cut spending or to raise taxes. Take either side. And the public does not like that.

An example of how this played out—I will not go to the current election—I will go to the past election, when President Obama ran against Governor Romney. They both accused each other of cutting back on Medicare, and they were both right on wanting to. So President Obama accused Governor Romney of cutting back on Medicare because he tended to favor—spoke somewhat in favor of a proposal—by Representative Paul Ryan, which was not fully delineated, but it was basically to convert the system a bit more toward a voucher system. Which, by the way, we have for Obamacare.

Meanwhile, the Governor Romney accused President Obama of cutting back on Medicare because in truth, that is partly how he distributed some money in paying for health reform from older people to younger people. He would not say that, but that is what happened.

They were both right; the system is out of control, but you could see how when you over-promise, it leads to this political dynamic where both parties basically accuse the other of cutting back on

some untenable promise. We all know Medicare is out of balance, we know it cannot be sustained. And yet as long as we are in a situation where either party can blame the other when trying to reform it—and because there will be less, yes, there is less relative to an unsustainable promise—we are in this box.

And so that box then, getting back to your question, this ties us in these knots. For instance I did a recent study that says of all the growth in spending, another one scheduled the next 10 year—the majority of it goes for healthcare.

So for poor people and workers—Mr. Conyers cares a great deal about poor people, and also Mr. Cohen. So we are going to give them $400,000 a year surgeons, but we will be darned if we are going to give them wage subsidies or help for their children when they raise them. It is like a crazy box that we are all trapped in. And so a lot of what I am trying to do is create a process where there can be a compromise between both parties about how to get out of this box or this classic—as I say, it is sometimes called a "prisoner's" dilemma where if you lead by yourself, as a party you lose.

Mr. BISHOP. Thank you sir. Mr. Chair, I yield back.

Mr. KING. The gentleman from Michigan returns his time. And Chair would now recognize the gentlelady from California for 5 minutes.

Ms. LOFGREN. Thank you Mr. Chairman. I think this is a good hearing, and with a serious testimony, and I appreciate all of the witnesses. Mr. Lilly, we knew you for so many years here when you worked on the Hill, and we thank you for your service here. And now that you are outside, I am wondering, I thought I saw that—well, let me ask you. What percentage of the mandatory spending on entitlement programs is for other than Medicare, Social Security, or Medicaid? What is the percent? Do you know that?

Mr. LILLY. Medicare, Medicaid, and Social Security are about 73 percent of total entitlements. But then you have military retirement, which is not in there, you have civil service retirement, and you have veteran's benefits, which make up another close to 10 percent. I mean I think there is kind of an ugly part of this discussion, which is people use the word entitlement with some racial implications. I think that is true. I mean I know a lot of people do not, but there are some people that do.

The truth is very, very little of the entitlement budget is actually going to minority groups that some people would like to undercut the whole—there may be a lot of State money that goes there, but I think there is an innuendo there that drives it. And the truth is, contrary to what Mr. Labrador said, the people that get the most from Social Security, and the people that are most dependent are rural White voters in Republican districts. And I am somewhat amazed at the willingness of the majority party to keep going down this road, because I think it is absolute dynamite if they get to the end of it. I think the whole purpose here is to get only partway down the road.

Ms. LOFGREN. At home, people, you know, the veterans and others talk about it as an earned benefits program, not an entitlement program. I suppose we could argue about that. But as I was thinking about those benefits that people have paid into, either with

their service in the military or through paying into Social Security, what would happen if those were subject to annual appropriations?

And I remember the government shutdown we had here; it was a very depressing time on—here in the capital and in the country. And one of the things that was important was that Medicare recipients and Social Security recipients did not have their benefits cut off. You know, we are not the most functional institution right now. If we had another government shutdown, and we had annual appropriations for these earned benefit programs, would they just simply be cut off?

Mr. LILLY. It would depend on how understanding the Budget Committee was and what kind of allocation they gave the Appropriations Committee. But you are certainly setting up a big fight between law enforcement and national security and grandma's check. And I think she may keep part of her check, but I think she would be quick vulnerable if we set up that scenario.

Ms. LOFGREN. You know, just a final comment. I hope that there is general agreement—and I have heard that from both sides of the aisle—that we need to be doing more for the young people of this country. I very much feel that that is true. But I am also mindful that these Social Security programs, number one, the large number of survivors' benefits are children of people who have died, and that is an essential safety net for that group.

But that also, at least where I come from, if grandma is in poverty, it is not grandma's problem by herself. I mean the whole family is going to have to scramble together. So to think that there is just an old person versus her daughter and her grandchildren is not correct, because the whole family is in this together. And if grandma is without any resources, everybody else in the family is going to have to come up with a way to keep grandma safe, sound, housed, fed, and the like. At least that is the way it is in where I come from.

Mr. LILLY. The caps that we have put on Medicaid will inevitably, if adopted, result in lots of old people being taken out of nursing homes and put on their children's doorsteps, which would have—we would go back to the way we used to deal with old age 30 or 40 years ago, and it would be catastrophic for families, for the future—the ability to educate and send kids to college. It is a direction nobody in this country wants to go, and it is foolish to talk about it as a real plausible route.

Ms. LOFGREN. I see my time has expired. Mr. Chairman, I yield back.

Mr. KING. I thank the gentlelady from California for yielding back her time. And the Chair now recognize the gentleman from Texas, Mr. Gohmert.

Mr. GOHMERT. Well, I feel like I just listened to one of the biggest reasons we are in trouble. Mr. Lilly, your statements that often entitlement is used with racial implications. Normally when I hear entitlements, most of the people I know understand the majority of people are elderly White people. And so I realize there is a component around this town, to deal with issues in this town, that want to put everything in racial perspective, but that is one of them that is. And maybe some of your friends do, but I do not know any of mine that do.

Mr. LILLY. Could I respond to that?

Mr. GOHMERT. I am responding to you, so no, you do not get a so rebuttal. If majority party goes down that road, they are not going to like where they are going. If we do not go down the road to get to fiscal responsibility, you are going to get through your life okay. And the wake you leave behind is going to be devastating and people will curse your name for future generations. We have got to go down a road of fiscal responsibility. So what I would like to do is talk about some possible solutions.

For one thing, the way Congress has been structured after Watergate, when the Democrats took over the majority, there were a number of things that were put into play. The Committee structure, the way it has ended up, you have Subcommittees putting together budgets that include different public assistance measures for the same groups.

And so, if you see one area where you think this is a bit duplicative, maybe we should cut this because I feel sure we have got other programs. Once you light into that, you are called a racist, you are called a—you know, you hate elderly people, you hate young people, it is just all about trying to divide us when we are trying to get to a place of responsibility before the system just collapses.

And my friend Dan Webster, former Speaker of the House in Florida, said he took on one aspect, and that was the aspect of how many Federal programs have we created that take people to and from appointments. And he said he is pretty sure he has found them all, but they are all through different appropriations, through different Subcommittees, and he believes 82 is how many there are. There may be a few more, but he thinks he has found most of them.

If you were to try to take out one of those 82 programs in one of those Subcommittee budgets, you would be accused of being racist, hating the elderly, hating veterans, hating this that or the other, when actually it seems to me if we got all of those different methods of public assistance—whatever it is, every form of public assistance in one Committee or one Subcommittee, then we could say no we do not need 82.

Most of them have 20 seat vans that sit idly by, and when they are used apparently usually average of like three people taking a trip somewhere. So if we got down to one, then we could make some real progress, we could help the same number of people without all of the massive waste. Now Cleta Mitchell made a suggestion before our Judiciary Committee, or I guess this Committee—she said let the authorizing Committee be the appropriating Committee, which is an interesting thought because we have hundreds of millions, maybe billions of dollars, that—I guess it is billions—that are being appropriated even though the Authorizing Committee has not authorized them. And so, anyway, I do not have a lot of time when you only get 5 minutes.

Also, another thing that was set up after Watergate was the automatic increase in every Federal department's budget, and we have got to do away with that, so that when we try to slow the rate of growth, then we are not vilified for making draconian cuts, that

a real cut would be a cut, and a real increase is an increase. But I have been pushing that bill ever since I have been here.

We have gotten through a couple of Republican Houses, but not through the Senate. But there is no charity, individual, company, partnership, nothing that has an automatic increase every year, and until we stop that and force people to be in government to be as responsible as people across America have to be, we are not going to fix our problems. And I yield back.

Mr. KING. I thank the gentleman from Texas. And the Chair would now recognize the gentleman from Colorado, Mr. Buck.

Mr. BUCK. I was just having fun over here listening to Mr. Gohmert. Mr. Gohmert, do you need more time?

Mr. GOHMERT. No.

Mr. BUCK. You said you only had 5 minutes, you were going to run out of time.

Mr. GOHMERT. That is right.

Mr. BUCK. All right. I have one sort of simple straightforward question, and I am directed to Mr. Eberstadt to start with. There are more than a dozen versions of a balanced budget amendment running around Congress right now. What would the effect of a balanced budget amendment be on this particular area?

Mr. EBERSTADT. Mr. Buck, I am really out of my depth, I confess, on balanced budget amendments. I have followed various entitlement programs and spending and dependency and labor market, but I have got to guess that the other two experts here will know a lot more about that particular area than I will.

Mr. BUCK. Okay. I do not want to mispronounce your name.

Mr. STEUERLE. It is just Steuerle. I grew up in the South, I slur over the letters, so. Just Steuerle.

Mr. BUCK. Okay. You want to take a shot at that?

Mr. STEUERLE. I do think the issue here is a constitutional issue, but I have to say constitutional with a small "c," because I think it is actually crucial. My fear is in watching, say, votes in California, or votes in Britain—I worry that we cannot design a constitutional amendment well to deal with how you organize fiscal policy.

So yes, I think that a budget should be basically balanced over an economic cycle, or as Mr. Lilly says, even more than balanced in the near term to get the debt to GDP ratio down. But I fear trying to write a precise rule for how to do it, because there is always something that comes up. An emergency, a war. So you can put exceptions in. But you put something in a constitution, and it is very hard to adjust.

I think at the end of the day you have got to come up with rules on how the House, the Senate, and, if you want to, the President when submitting budgets—that, as I say, with a small "c"—can tend to have the constitutional constraint that the old balanced budget rule, which was not in the Constitution, provided. But I just fear we cannot write a formal constitutional amendment that is going to actually work. That we would ever word it right. And I fear the classic California problem of how some of things work when you get into that type of game.

Mr. BUCK. And what is the alternative?

Mr. STEUERLE. So I have quite a number of suggestions in various writings that I have made. Among them, I think that there are ways to hold Congress and the President more responsible for keeping a budget balanced over a cycle. You could tell the President this does not constrain him, but I think in the public it would. You could say we the Congress only accept a budget that is balanced over 10 years, or balanced in some reasonable way over the 10 years. I want to be careful because whether you do real or inflationary.

Mr. BUCK. But you know what happens then——

Mr. STEUERLE. And all these issues that are hard to define precisely.

Mr. BUCK. This Congress would blame it on the next one that it was not balanced 10 years from now. That is the game.

Mr. STEUERLE. But the last two Presidents have submitted substantial increases in the debt in their initial years and said, well, later on I will get around to dealing with it. At least a rule like that would hold them responsible for telling the public, "Oh by the way, I am going to increase spending for Medicare Part D, or I am going to increase spending for the recession, but here is how I am going to pay for it at least seven or 8 years down the road."

They start off not doing it, and then they say after they double the debt, they say, "And now I am going to worry about maybe cutting it back." There are other rules that I do not have time to go through it, that I suggest I think Congress could adopt that would be much stricter.

But the main thing that I emphasize as I state in my testimony, there are all sorts of ways of writing budget rules is I think we have to restore discretion. So we could require some entitlements, by the way, like food stamps, to be actually reauthorized. So that it is really not an entitlement the same way.

I think Mr. Lilly is more of an expert on this than I am. It is not an entitlement the same way as the ones that have automatic growth. Because it does not grow automatically, and it has got to be reauthorized. You could require more reauthorization for every program. Also, I think every program should be in a budget. Health programs, Social Security, it should be in a budget.

Now, for instance, I would protect the inflation increases for current elderly, so nobody is cutting back on benefits. But target the growth, the automatic growth. For instance, I get about 7 or 8 more years of retirement relative to when the system was first established. That is worth about, for my wife and me, about $300,000 more.

Did anybody really intend for me to get a $300,000 increase in Social Security benefits, just by having more years in retirement? I do not think so. Stuff like that should have to be voted on and reauthorized. So by restoring discretion to the budget, we create a process where there would then be a gap between revenues and spending, which the parties could fight over whether to have tax cuts or spending increases. That was the tradition throughout almost all of our history.

And by the way, you know, consider all the political arguments about why people in Congress cannot compromise. When there is discretion, you have got to vote for a tax cut or a spending increase

because a budget building up surplus would create huge problems. When spending grows faster than revenues, now you have got to compromise. Saying, “Who wants to step up first and tell the public what they are not going to get? Who is going to step up first and tell them what tax increases you really want, or what spending cuts you really want,” puts them in a horrible box, is easier to compromise when you have got more money to spend.

It is hard to compromise when all the contracts have already been signed for infinity for how that money is going to be spent.

Mr. BUCK. Thank you, Mr. Chair.

Mr. STEUERLE. So there is a lot of rules like that I think we could develop.

Mr. BUCK. I have got to yield back.

Mr. KING. The gentleman from Colorado yields back. This concludes today’s hearing, and thanks to all our witnesses for your testimony and your participation.

Without objection, all Members will have 5 legislative days to submit additional written questions for the record, or additional materials for the record. I thank the witnesses, and I thank the members in audience. This hearing is adjourned.

[Whereupon, at 2:36 p.m., the Task Force was adjourned.]

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